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ABSTRACT

This unit weighs the choices and tradeoffs involved in the interdependence of trade and the goals of U.S. trade policy. The first section of the first booklet is designed to introduce students to how the global economic system developed in the decades after World War II. Part 2 illustrates the impact of trade policy on the lives of four Americans, while part 3 discusses leading trade policy issues. Students research and debate three policy options available to the United States including: (1) "Promote Free Trade"; (2) "Protect American Workers"; and (3) "Chart Our Economic Course." The first booklet also offers the "Description of the North American Free Trade Agreement" (1992). The Teacher's Resource Book contains a day-by-day lesson plan and student activities (5 days). An alternative 3-day lesson plan may also be useful. (EH)

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CHOICES FOR THE 21st CENTURY

U.S. Trade Policy: Competing In A Global Economy

SO 028 792

ALTERNATIVES FOR PUBLIC DEBATE AND POLICY DEVELOPMENT

A program of the Thomas J. Watson Jr. Institute for International Studies

Brown University, Box 1948, Providence, RI 02912

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CHOICES

for the 21st Century Education Project

March 1996

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The Choices for the 21st Century Education Project develops curricula for high schools and colleges on current foreign policy issues and offers workshops, institutes, and in-service programs for high school teachers. Course materials place special emphasis on the importance of educating students in their participatory role as citizens.

The Choices for the 21st Century Education Project is a program of the **Thomas J. Watson Jr. Institute for International Studies** at Brown University.

Thomas J. Biersteker
Director

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The Choices for the 21st Century Education Project is a program of the Thomas J. Watson Jr. Institute for International Studies at Brown University. Choices was established to help citizens think constructively about foreign policy issues, to improve participatory citizenship skills, and to encourage public judgment on policy priorities.

The Thomas J. Watson Jr. Institute for International Studies was established at Brown University in 1986 to serve as a forum for students, faculty, visiting scholars, and policy practitioners, who are committed to studying global problems and developing international initiatives to benefit society.

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Part I: The Global Economic System — Made in the U.S.A.

According to the statistics, 1995 was a good year for the American economy. Unemployment was down below 6 percent. Inflation held steady at under 3 percent. The gross domestic product* (GDP) grew by over 3 percent. The stock market soared to record heights. Corporate profits were stronger than ever. International economic analysts declared that the United States had regained its position as the world's most competitive economy. Yet, a majority of Americans were less than upbeat about their economic prospects. Missing from the data was a measurement of the anxiety and insecurity gripping much of the country.

In fact, Americans have good reason to be uneasy. They are being propelled into a new era by the forces of economic globalization. Each year, a greater share of the U.S. economy becomes linked to foreign trade. American businesses and workers are increasingly forced to compete in a global marketplace. Many of America's flagship corporations are downsizing at a frantic rate. Others are moving factories and jobs overseas, blurring the distinction between imports and exports. Wages for millions of American workers are being held down by the pressure of the international labor market.

But there is a bright side. Economic globalization has opened up a world of opportunity for U.S. exporters. At the same time, American consumers are able to choose from a wide array of imports, and millions of investors are reaping the rewards of placing their savings in foreign stock markets.

How the United States fits into the emerging global economy will have a great impact on the lives of Americans in the 21st century. In this unit, you will be asked to consider the difficult choices that lie at the heart of the debate on U.S. trade policy. The coming years are sure to feature controversy about the North American Free Trade Agreement (NAFTA), which unites the United States, Mexico, and Canada in a single market, and the World Trade Organization (WTO), which includes more than 120 countries.

*Underlined terms are defined in the glossary on page 4.

The most important questions, however, go beyond specific trade pacts. Rather, they focus on what the goals of U.S. trade policy should be. Should we place more emphasis on protecting American jobs or on sharpening our country's overall competitiveness in the global economy? Should the government provide select industries an edge in the international marketplace, or should the forces of the free market system determine success and failure? And what of the connection between international trade and foreign policy issues? Should we use trade policy as a tool in promoting human rights and democracy? Should trade benefits be awarded to countries that embrace American political values?

The background reading that follows has been designed to help you consider these and other questions. The first part explains how the global economic system developed in the decades after World War II. Part II illustrates the impact of trade policy on the lives of four Americans, while the final part of the reading discusses leading trade policy issues.

Setting Rules for a Global Market

For its first century and a half, the United States shielded young manufacturing industries from foreign competition while assertively seeking out new markets overseas. Throughout most of the 19th century, U.S. import tariffs remained above 30 percent (as compared to under 3 percent today). Government contracts, especially for the armed forces, were aimed at stimulating strategic sectors of the economy.

U.S. leaders at the time felt that high tariffs were needed to protect their country's economy from the power of British industry. Few saw the benefits of free trade. Abraham Lincoln spoke for the majority of his contemporaries when he said, "I don't know much about the tariff. But I know this much. When we buy manufactured goods abroad, we get the goods and the foreigner gets the money. When we buy the manufactured goods at home, we get both the goods and the money."

World War II dramatically altered American

views about our country's role in the world. At the close of the war, George Kennan, the diplomat who first laid out the U.S. strategy for containing the Soviet Union, maintained that there were five centers of industrial and military power in the world: the United States, the Soviet Union, Britain, Germany and central Europe, and Japan. To stop Soviet expansion, Kennan believed that the United States needed to ensure that the other three powers were pro-American and economically strong.

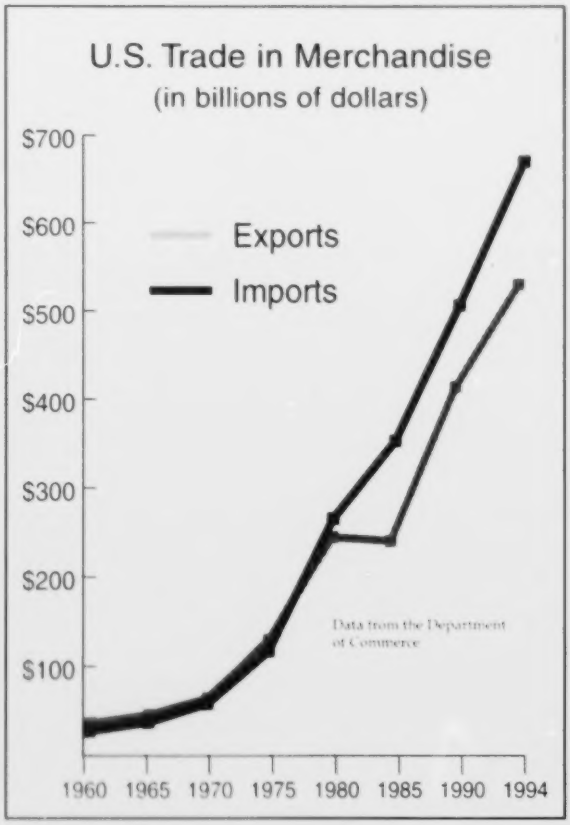
President Harry Truman and his successors followed Kennan's recommendations. In the late 1940s, the United States sought to give the international financial system a firmer footing. Leaders of Truman's generation believed that free trade was crucial to the health of the U.S. economy and the stability of the Western world. They recalled that an increase of U.S. import tariffs in 1930 had cut American trade in half, and led to a deepening of the Depression and a further weakening of the international economy. Truman's top priority was to restore the prosperity of American trading partners in Western Europe.

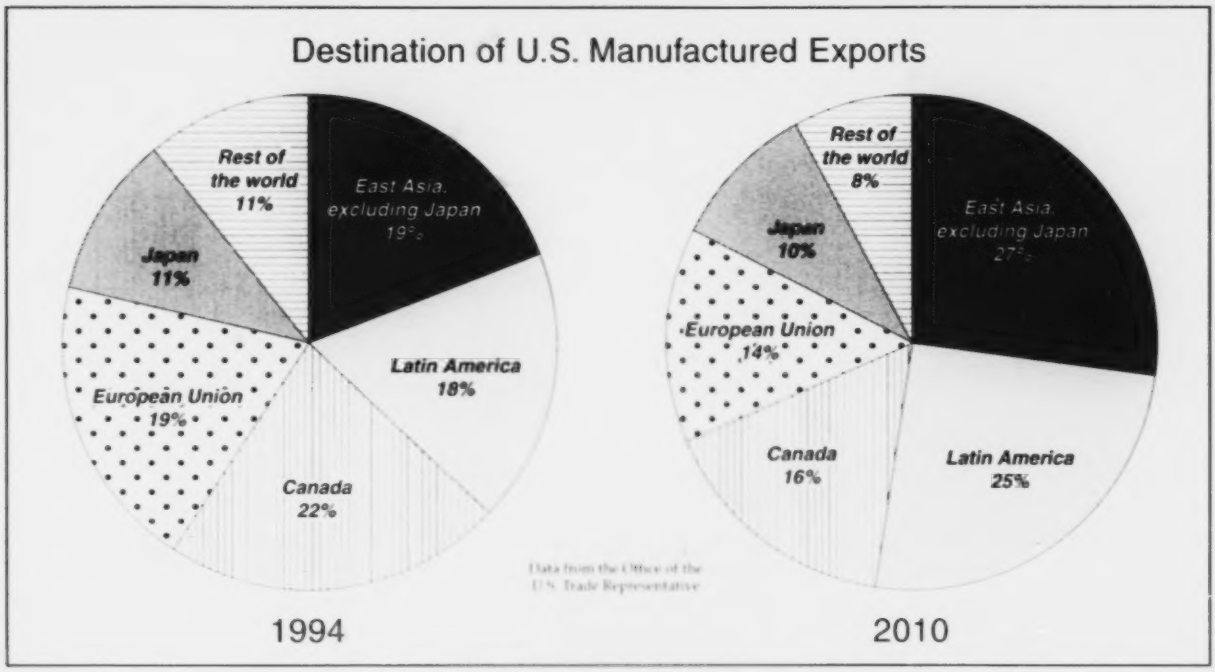
The key element in promoting Western Europe's recovery was the Marshall Plan. From 1948 to 1952, the United States supplied $12.5 billion (equivalent to more than $75 billion in 1995 dollars) in aid to the region. American money also funded the International Monetary Fund and the World Bank — institutions set up to repair war damage and to aid developing countries in Asia, Africa, and Latin America. At the same time, the United States pressed for the establishment of the General Agreement on Tariffs and Trade (GATT) to remove barriers to trade within the non-communist world.

The creation of GATT in 1947 represented a milestone in the expansion of international commerce. Long-distance trading dates back thousands of years, but most trading partnerships developed on a local or regional level. GATT hastened the trend toward a global trading system by putting together an internationally recognized set of ground rules. The United States was the driving force behind GATT's success. From GATT's founding session in Switzerland, when tariffs worldwide averaged about 40 percent, the United States carried the banner of free trade through six additional rounds of negotiations. By the time the eighth round of GATT talks convened in Uruguay in 1986, tariffs worldwide had fallen to roughly 5 percent. Moreover, the United States campaigned for the enlargement of GATT's membership, which grew from twenty-three countries in 1947 to more than 120 in 1994.

U.S. allies recover

The United States also encouraged the trading partnerships that developed in Western Europe and East Asia. In 1957, West Germany and France put aside their history of conflict to jointly take the lead in creating the six-nation European Economic Community. The trading bloc (which grew into the present-day European Union) eliminated many restrictions on the movement of people, goods, services, and capital among member nations. The European Union (EU) today contains fifteen countries, which together represent an economy larger than that of the United States. In recent years, EU states have moved





toward closer cooperation and have drawn up plans to accept additional members from Central Europe.

In East Asia, U.S. policies helped make Japan a regional hub of economic activity. As the Japanese economy took off after World War II, it developed close economic ties with other important U.S. allies in the region. The success of East Asia's "four tigers" — South Korea, Taiwan, Hong Kong, and Singapore — was part of a larger U.S. effort to strengthen the countries that were on the front line of the struggle against communism.

During their economic recoveries, the countries of the EU and East Asia relied on high tariffs to protect their key industries. In contrast, American tariffs were held at relatively low levels. U.S. leaders consistently championed the principles of global free trade embodied in GATT, while rejecting U.S. participation in a regional trading bloc like the EU.

The cause of free trade served both U.S. economic and foreign policy interests. As trade barriers fell, world trade in merchandise increased from $53 billion in 1948 to nearly $1.5 trillion in the mid-1970s, to more than $5 trillion today. American exports soared. At the same time, access to the American market helped Japan and Western Europe recover from World War II, thus strengthening the United States' key allies.

At the beginning of the Cold War, few U.S. leaders imagined that the countries of East Asia and Western Europe would soon offer competition to U.S. industries. In 1950, per capita GDP in the United States was nearly seven times Japanese per capita GDP. By the early 1990s, according to some measurements, Japan and several Western European countries had pulled ahead of the United States in per capita GDP.

Global Economic Pressures

As we approach the 21st century, the United States still occupies a position of leadership in the world economy. The U.S. economy remains the world's largest — nearly twice the size of our nearest competitor, Japan, and the U.S. dollar serves as the accepted currency of international trade. In 1995, the United States led the world in exports. The United States also maintains a lead in many of the future's most promising industries, including biotechnology, telecommunications, and the development of environmentally friendly products.

However, the United States no longer dominates the world economy as it did in 1950. At that time, U.S. manufacturing output accounted for roughly half of the world total (compared to slightly over one-fifth today). Americans have watched their automobile, steel, and consumer electronics industries lose ground to foreign competition. Whereas in 1950 countries throughout the world turned to the United States to loan them money, today the United States is the world's biggest borrower. Persistent budget deficits have forced the United States to rely on foreign lenders to finance government spending. Instead of the trade surpluses routinely recorded in the 1950s and 1960s, the United States now suffers a trade deficit year after year. In 1995, for instance, the U.S. trade deficit was $111 billion.

The changing U.S. position in the international economy does not mean that the United States has become poorer. On the contrary, U.S. per capita income has continued to increase even as countries in Western Europe and Japan have caught up economically with the United States. What has changed is the nature of the global economy. Goods and services now cross borders at an ever more rapid pace, and the market for labor and capital has acquired an increasingly global character. Borders seem to count for little among big corporations. An American clothing company, for example, might design a new line of women's fashions in the United States, produce the garments in Thailand, finance the operation with French money, and sell the clothing in the market created by NAFTA.

On a still larger scale, the global balance of economic strength is shifting from the rich, developed world to the poorer, developing world. Developed countries (such as the United States, Germany, and

Glossary of Economic Terms

Gross domestic product (GDP): The total value of goods and services produced in a country during one year. Another indicator of economic output, gross national product, is also widely used by economists.

Free market system: An economic system in which the basic questions of what, for whom, and how to produce are decided by buyers and sellers. In a planned economy, such as the system of the old Soviet Union, most economic decisions are made by the government.

Import tariffs: A tax placed on imports. Because high tariffs increase the price of imported products, they protect domestic producers from foreign competition. Japan has maintained high tariffs on imported rice to protect its rice farmers.

Trading bloc: An arrangement to promote trade among member countries by reducing tariffs, regulations, and other obstacles to the free movement of goods and services. NAFTA and the EU are the world's largest trading blocs.

Capital: The economic assets that contribute to production. Investment capital allows business owners to acquire the machinery, knowledge, and other tools of capital that are necessary for the production of goods and the generation of services.

Trade deficit: An excess of imports over exports. The United States, for example, has a large trade deficit with Japan because the value of Japanese products, especially automobiles, bought by Americans is greater than the value of American products bought by Japanese.

Maquiladoras: Initiated by the Mexican government in 1965, the *maquila* program has allowed foreign companies to assemble imported products tax-free, for immediate re-export, in factories along the Mexican-American border. These export factories have created more than half a million jobs in Mexico. The *maquiladoras*, however, have also increased pollution in northern Mexico.

Pacific Rim: The nations of the Western Hemisphere, East Asia, and Oceania that border the Pacific Ocean. The Pacific Rim accounts for over half of the world's economic output and is home to most of the fastest growing economies.

Non-tariff barriers: Standards, regulations, and local business practices that impede imports. Although GATT succeeded in lowering tariffs worldwide, non-tariff barriers have been more difficult to eliminate.

Industrial policy: A government strategy to steer economic development by promoting particular industries through regulatory policies, investment, tax incentives, and other government measures.

Japan), which in 1995 accounted for roughly 55 percent of world economic production, will see their share of global output drop to below 40 percent by 2020. In turn, developing nations, particularly those in East Asia, will continue to surge forward. China's GDP is likely to surpass that of the United States in the next two decades.

Winners and losers

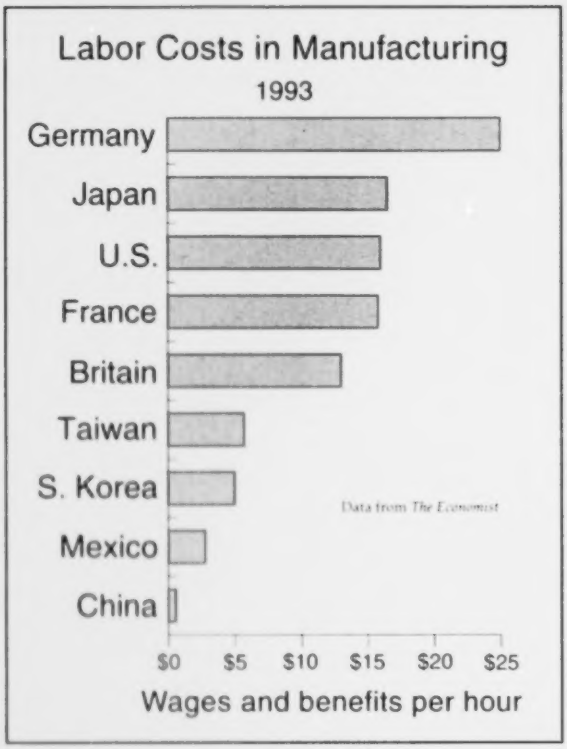
Ultimately, the question of the U.S. economy's health hinges on perspective. Many economists view the 1980s as a pivotal decade, when American firms improved their efficiency and U.S. exports began expanding. In many high-tech fields, ranging from microelectronics to telecommunications equipment, America's lead in global exports has continued to widen.

America's vibrant service sector — ranging from business insurance to computer software to international hotel management — accounts for a growing share of U.S. exports. American manufacturing workers have recorded strong gains in productivity too, especially as the economy emerged from the 1990-91 recession.

Overall, the opening of new markets has proved to be a boon for American industry. Most business executives, especially those in export-oriented areas, are optimistic regarding the United States' ability to compete globally.

The growth in trade has also given American consumers a wider range of products to buy. The increased competition has forced producers to improve quality and hold down prices. Low-income Americans, who spend a larger share of their money on consumer goods, have been among the prime beneficiaries of lower prices.

But while U.S. trade opportunities have expanded and new consumer goods have entered the market, most American manufacturing workers have not welcomed competition on a worldwide scale. They fear that the forces of open trade threaten their way of life. Statistics suggest that they have cause for concern.



From 1979 to 1995, U.S. industrial output doubled, and yet wages fell. Roughly 3 million manufacturing jobs were lost in the United States during the period. As the share of workers with health and pension benefits declines, economists calculate that Americans in the labor force under 30 years old will earn less than their parents in their lifetimes.

In 1994, a year of robust economic growth, the income of an average American household remained stagnant — more than $2,000 below the 1989 figure. The gap between rich and poor in our country has steadily widened over the past several years. By 1994, the top fifth of American households earned 49.1 percent of the nation's income, while the bottom fifth earned just 3.6 percent.

International trade is clearly not the only reason for the widening economic divisions in our society, but the issues surrounding trade policy have, with good reason, become part of the debate. In the years to come, they will occupy an important place on our national agenda.

Part II: How U.S. Trade Policy Affects Us

Debate over U.S. trade policy often revolves around theories and formulas that are designed to measure the performance of the economy in statistical terms. To understand the human impact, however, we must consider the effect of trade policy on individual Americans. In this section, you will read about how trade policy relates to the lives of four people. Although the characters are not real, their hopes and concerns typify attitudes found throughout the country.

Profile #1 — Judy

Judy lives in a New England city with a long industrial history. Like many people in her neighborhood, she works in a jewelry factory assembling earrings and necklaces. She is a high school graduate, but with three children to raise she has not found the time for further education. Along with many of her co-workers, Judy is worried about the future of her job.

Judy, now in her mid-40s, has worked in the same factory for twelve years. During that time, her salary has barely kept up with inflation. In 1996, she was making $7.10 an hour. Judy's employer offers a health plan, but since the late 1980s benefits have been steadily reduced while the contribution required from employees has climbed.

Although Judy would like to find a better job, she considers herself lucky to be working at all. There have been several rounds of layoffs in her factory, especially after the lull that usually follows the Christmas season. Two years ago, a nearby jewelry factory closed down when manufacturing operations were moved to Malaysia.

Judy has come to recognize that the future of her job is closely tied to the global economy. Browsing through her city's shopping malls, she has reached the conclusion that her factory is competing against low-wage countries in Latin America and Asia. For Judy, free trade represents a threat. She realizes that some U.S. businesses will benefit from more open markets, but feels that American workers have little to gain.

The trends of the past two decades justify Judy's concerns. Since 1979, the proportion of full-time working people unable to earn enough to keep their families above the poverty line has increased by 50 percent. The 70 million American workers who, like Judy, are classified as unskilled have found themselves competing with workers in developing countries for jobs.

Global economic pressures have also encouraged many companies to reduce their work forces. The largest cuts in the 1990s have come from the giants of American industry. General Motors, for example, has laid off 70,000 workers, while International Business Machines has slashed 63,000 jobs. Even after a year of healthy profits, AT&T announced in early 1996 that it would eliminate 40,000 jobs over three years.

As free trade expands, workers like Judy face greater competition from their counterparts in developing countries. Wages in Mexico, for example, average one-sixth of U.S. levels. Moreover, regulations safeguarding the environment and working conditions are weaker in Mexico. Under NAFTA, more companies are expected to take advantage of the country's cheap labor costs and easy access to the American market.

Even before NAFTA's approval, hundreds of American and East Asian firms had set up assembly plants in Mexico, known as *maquiladoras*, that put together goods for shipment across the border. Over one-third of U.S.-Mexican trade consists of the transfer of goods between American and Mexican factories within the same company.

Although the average Mexican worker has only a sixth-grade education, productivity in some *maquiladoras* is equal to American standards. The *maquiladora* experience has provided American manufacturers with valuable insights into managing overseas factories that can be applied far beyond Mexico's borders.

The effect of the 1989 U.S.-Canadian free trade pact also seems to support Judy's concerns. In comparison to the United States, labor unions have been

Jeff Danziger in *The Christian Science Monitor* 1994 © TCSPS

stronger in Canada and employers have paid more in taxes for unemployment insurance. As a result, the free trade agreement put some Canadian companies at a competitive disadvantage. From 1989 to 1992, the output of Canada's factories fell 11.4 percent, compared to a 1.6 percent gain in the United States. Employment in Canadian manufacturing dropped by 15 percent. In response, the Canadian government cut unemployment insurance to levels that were closer to U.S. standards.

Judy wants the protection of American jobs to be the top priority of U.S. trade policy. Trade agreements that leave Americans unemployed should be rejected, in her opinion. She also hopes that the government will help workers adjust to the economic shake-up that accompanies changing trade patterns. She believes that training workers in new job skills would be helpful.

The government, Judy feels, should encourage companies to invest more in the education of their workers. Firms in Germany, Japan, and other developed nations are well ahead of the United States in worker training. Furthermore, many students in foreign countries finish their high school education by taking part in advanced apprenticeship programs. Judy would like to see such opportunities for her children.

Profile #2 — Vicky

Vicky lives in Atlanta, a city that has been her home since she found a job there as a sales representative for a telecommunications firm. Vicky, who will soon be 30 years old, has had a strong interest in international business since high school. In her senior year, she served as an intern at a company that sold aviation equipment to East Asia. In college, Vicky spent a year in Taiwan on a student exchange student. Her experience abroad led Vicky to change her major to international marketing.

Since graduating from college, Vicky has worked for three companies. She is especially pleased with the growing field of telecommunications and the city of Atlanta, which has transformed itself into an important center of international business. At her current job, Vicky is part of a division that markets cellular telephones to businesses.

Her division has increasingly found customers in the Caribbean and Latin America, where poor telephone service makes cellular communications an appealing option. The Mexican market, once heavily protected, has seen the highest rates of growth. Opportunities in Mexico began to open in 1990, when the government sold the state-run communications monopoly, *Teléfonos de México*, to private investors.

Under NAFTA, the barriers that have shielded Mexico's telecommunications industry are being lowered further, and Vicky's company is well-positioned to widen its customer base. In Mexico City, for example, thousands of businesses already rely on cellular telephones as an alternative to *Teléfonos de México*. By emphasizing prompt installation and repair services, as well as low-cost leasing arrangements, Vicky's company hopes to capture a sizable share of the Mexican market.

In the next few years, company executives also hope to gain a foothold in China. Vicky would be a

key part of her company's operations. Not only does she speak Chinese, but she has acquired international business experience through her previous jobs.

The potential of the Chinese market is vast. Since 1979, China's economic growth has averaged 9 percent annually, and foreign investment has flooded into the country. China's leaders, however, have tightly limited the sphere of outside involvement. They have been particularly slow in opening their economy up to foreign companies, such as Vicky's firm, that specialize in business services. Moreover, China has yet to be admitted into the World Trade Organization (the international body that replaced the GATT in 1995).

Assuming trade barriers fall in China and other countries, American companies that provide business and financial services such as banking, insurance, advertising, and telecommunications are poised to take advantage of new opportunities. The ethnic and cultural diversity of the United States, along with the worldwide acceptance of American business standards, should give Americans a competitive edge.

Economists note that the United States has shifted away from manufacturing bulky goods and moved toward a high-technology, information-oriented economy. Rather than capturing the world market for steel pipes, they say, American workers are more likely to have an advantage in developing computer software. The changing face of the American economy is reflected in recent trade figures.

In 1995, for example, the United States imported $174 billion more in merchandise than it exported. At the same time, the United States enjoyed a $63 billion trade surplus in services. American exports of financial services consistently have led the world, typically doubling the total of the nearest competitor. More open trade is expected to give an added boost to the service sector.

PROFILE #3 — AL

Al lives in a small Midwestern city that has been dominated by the automobile industry for most of this century. When Al was growing up, he was surrounded by relatives and neighbors who worked either in the General Motors (GM) factory just outside his town or in one of the smaller plants that supplied auto parts. Al always figured that he too would end up working in the auto industry. In college, he earned an engineering degree, and then went to work for the local GM plant. After fifteen years with GM, Al and two of his fellow engineers opened a factory that produces gaskets for the engines of GM cars. Now in his late 50s, Al employs more than 100 people and supplies gaskets to GM, Ford, and Toyota factories in the United States and Mexico. His daughter, who just graduated with a master's degree in business administration, hopes to increase the sales of her father's company.

When Al opened his plant, American companies were still the unquestioned leaders of the auto industry. Most of his business, as well as his competition, could be found within a few hundred miles of his home. Today, Al faces a business environment that is more competitive and global. Companies in Japan and South Korea have entered the U.S. market

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with greater force in the last two decades. In 1994, for example, Japanese companies based in the United States turned out 1.5 million American-made vehicles.

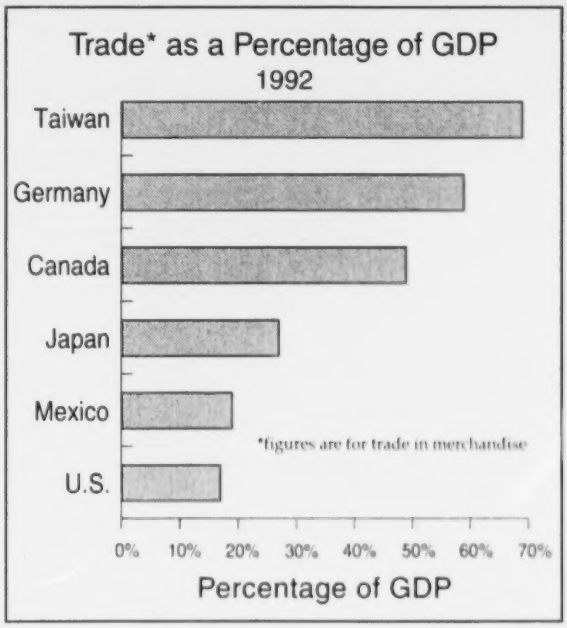
To meet the changing demands of the market, Al has hired additional engineers to design new gaskets. On the factory floor, he has invested heavily in new equipment to increase productivity and respond to design changes. Al has also streamlined his manufacturing operation to the point where he produces gaskets only to fill specific orders. This has allowed him to trim his manufacturing costs, and to avoid maintenance expenses for overstocked warehouses. With these cost-cutting measures and an emphasis on customer service, Al feels that he can stay ahead of foreign competitors.

Al knows his competition in East Asia also continues to raise productivity levels. From 1979 to 1994, the productivity of Japanese manufacturing workers increased by 4.2 percent annually, compared to a 2.5 percent yearly rise in the United States. In some areas of manufacturing, the productivity of Japanese workers has surpassed American levels.

Wages costs also concern Al. Full-time workers in Al's factory earn $12.50 an hour and receive health insurance. Mexican workers performing the same jobs earn about $2 an hour. The wage gap has Al worried about NAFTA. A number of companies that compete with him set up plants in Mexico in the 1980s. With the approval of NAFTA, others have followed.

There is also a positive side to NAFTA for Al. By creating a regional trading bloc, NAFTA gives Al and other American business executives a competitive advantage in dealing with Mexico. Mexico is one of the fastest-growing automobile markets in the world and has contributed to the recent rebound of the U.S. auto industry. Al has seen his exports to Mexico triple since 1986, the year when Mexico began a sweeping economic liberalization program. He is part of a trade boom that saw U.S. exports of auto parts to Mexico increase by about 65 percent from 1991 to 1994.

Under NAFTA, Mexico's tariffs on cars and light trucks have been cut in half, and tariffs on most auto parts coming into Mexico will be eliminated by the end of the century. A recession that began in 1995 has held down recent Mexican imports, but the long-term



outlook is good. The Mexican market for new vehicles is forecast to grow by at least 65 percent between 1994 and 2000.

American manufacturers such as Al have reason to be optimistic about broader trends in global trade. From 1990 to 1994, U.S. exports rose 23 percent. About half of U.S. economic growth during the period was tied to exports. Some of the increase can be attributed to the fact that the value of the U.S. dollar fell in relation to currencies in Western Europe and Japan, thus lowering the price of U.S. exports. Economists, however, also note that global competition has forced American companies to improve quality and hold down costs. Even in well-established U.S. export industries — such as agriculture, electrical machinery, aviation, and computer equipment — continued innovation has boosted American competitiveness.

Profile #4 — Rick

Rick is a high school senior living in Southern California, not far from the U.S.-Mexican border. Like other high school students, Rick has a practical understanding of what international trade means in his daily life. The shoes he wears were made in India, his jacket was produced in Mexico, the compact-disc player he owns is from South Korea, and the car he

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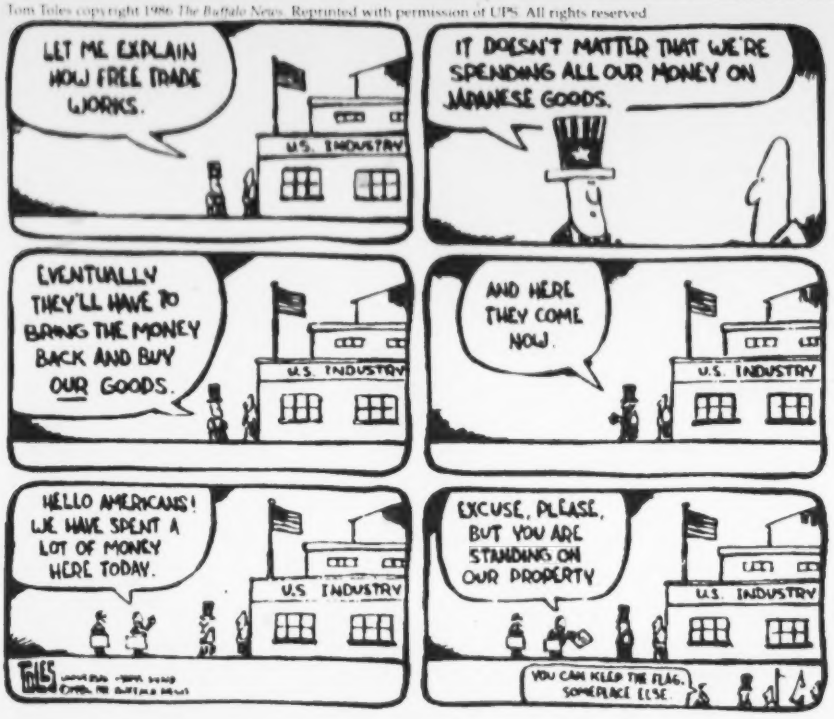

LET ME EXPLAIN HOW FREE TRADE WORKS.
U.S. INDUSTRY
IT DOESN'T MATTER THAT WE'RE SPENDING ALL OUR MONEY ON JAPANESE GOODS.
EVENTUALLY THEY'LL HAVE TO BRING THE MONEY BACK AND BUY OUR GOODS.
U.S. INDUSTRY
AND HERE THEY COME NOW.
U.S. INDUSTRY
HELLO AMERICANS! WE HAVE SPENT A LOT OF MONEY HERE TODAY.
U.S. INDUSTRY
EXCUSE, PLEASE, BUT YOU ARE STANDING ON OUR PROPERTY
U.S. INDUSTRY
YOU CAN KEEP THE FLAG, SOMEPLACE ELSE
TOLES

would like to buy is manufactured in Germany. Thanks to international trade, Rick can choose from a world of goods at reasonable prices. Compact-disc players, for example, have dropped sharply in price in recent years.

In the next few months, Rick has to make some important decisions that go well beyond his life as a consumer. Since he was old enough to remember, Rick has been interested in airplanes. His uncle, who works as a forklift operator for an aviation manufacturer, first sparked Rick's curiosity by bringing him posters of the fighter planes produced at his plant. Ideally, Rick would like to become an aeronautics engineer.

Rick is in a good position to achieve his career goals. He has always done well in math, and next fall he will be attending college near Los Angeles. But now Rick is wondering if he should rethink his educational plans. During the 1980s, the American aviation industry was healthy and growing. Production reached an all-time high. In the 1990s, however, cutbacks in military spending have rocked aviation manufacturers. Rick's uncle has kept his job, but hundreds of his co-workers have been laid off. Many experienced engineers are among the unemployed.

As Rick weighs his options, U.S. trade policy will figure into the decisions he makes. American aviation companies, especially those that depended heavily on military contracts, are eager to find new export markets. Much of their attention has focused on China, where air travel and the demand for aircraft are booming.

In addition, American aviation firms hope to revitalize the military sector by strengthening their ties overseas. One project involves a cooperative effort between American and Japanese companies to build a fighter plane, the FSX, for Japan.

While the American aviation industry is grateful for Japan's decision to order 141 of the fighters, critics have warned that the United States is relinquishing valuable technology to the Japanese that could harm our country's global competitiveness. Citing the television and VCR industries, they fear that the Japanese will apply what they have learned from the FSX project to challenge American dominance in military and commercial aircraft sales. Such arguments prompted President George Bush to temporarily halt work on the project to restrict the flow of defense-related technology to Japan.

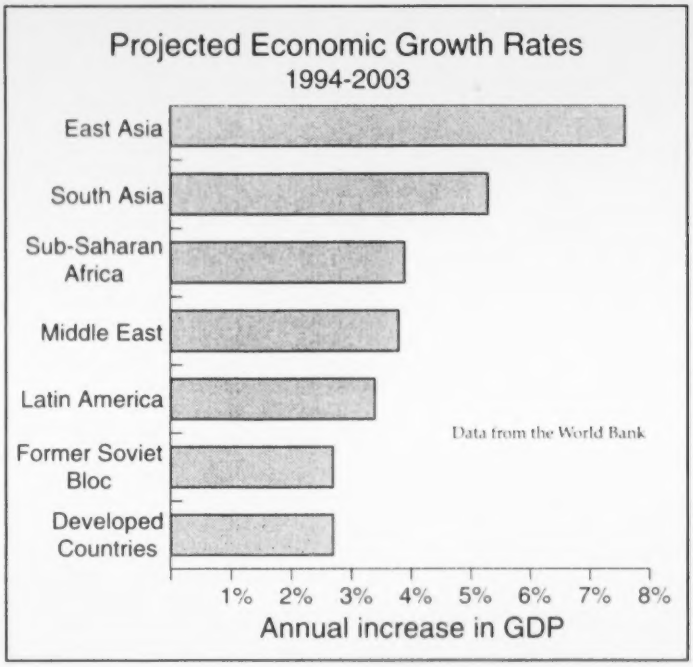
American aviation executives, however, have lobbied the U.S. government to clear away obstacles to FSX production. They contend that the FSX project fits into global economic trends, pointing out that their industry is increasingly being drawn into the Pacific Rim economy. Developing a partnership with Japan, they say, has helped to keep the U.S. aviation industry ahead of Western Europe in the competition for the East Asian market.

The impact of U.S. trade policy, particularly in connection with the Pacific economy, has touched Rick's life in other areas as well. Southern California's economy has been reshaped by the increase in foreign trade. Many local business leaders have an optimistic outlook. They foresee strong economic growth for

the area as the U.S. economy continues to tilt toward the Pacific.

Along with growth, however, have come problems. Southern California's integration into the Pacific economy has prompted local companies to move abroad to avoid U.S. standards on environmental protection and worker safety. Rick has seen for himself what that has meant for northern Mexican during his three visits to the region.

Last summer, Rick spent a week in Tijuana with the relatives of a classmate. Not far from the neighborhood where he stayed, there is an industrial park that houses a number of *maquiladoras* operated by U.S. firms. Neighbors complain that chemical fumes from the plants pollute the air and that untreated waste water is allowed to flow into a drainage ditch that empties into the Pacific Ocean.



Indeed, the industrial belt in northern Mexico near the U.S. border is home to some of the worst pollution in North America. Some corporations have taken advantage of Mexico's comparatively weak environmental laws to avoid the costs involved in addressing industrial pollution. They also know that the agencies assigned to enforce Mexico's environmental laws are seriously understaffed and financially strained. As a result, health experts in Mexico report that factory workers often suffer from ailments related to pollution.

Free trade supporters maintain that the economic growth generated by NAFTA will give Mexico the resources to raise the country's environmental standards. They also point out that NAFTA encourages Mexico to adopt stricter regulations. Environmentalists, however, are worried that more open trade with Mexico will force American manufacturers to cut corners on environmental protection and worker safety to enable them to compete with Mexican factories.

What happens along the U.S.-Mexican border may be an indication of how economic globalization changes American society. For all of our country's problems, the United States offers its citizens much better education and health care than do most countries in Latin America and East Asia. Americans enjoy social service programs, such as social security, unemployment insurance, and student loans, that have no comparable equivalent in Mexico, Malaysia, or many other nations of the Pacific Rim.

Economists predict that over time free trade will smooth out some of the differences in the societies of the Pacific trading partners. Whether the overall effect for Americans will be positive or negative is a question open to debate. Free trade supporters expect the WTO, NAFTA, and other trade agreements to gradually raise the standards of poorer countries to those of the United States, Japan, and Canada. Critics, however, fear that affluent societies will become more like the developing world.

Part III: Rethinking U.S. Trade Policy

With the Cold War over, the national security priorities that framed our country's trade relations and military alliance with Western Europe and Japan have lost much of their significance. U.S. trade interests seem to be pointing in new directions. In the next twenty-five years, developing countries are likely to account for about two-thirds of the increase in world imports. America's exports to the countries of the developing world and the former Soviet bloc, which already represent 42 percent of total U.S. exports, are expected to rise sharply.

U.S. leaders have attempted to keep pace with the future by actively promoting new trade ties. Their most notable achievements have been the WTO and NAFTA.

The WTO and NAFTA have pushed news about trade policy from the business section to the front page. The congressional debate on NAFTA in the fall of 1993 — followed a year later by the vote on GATT — drew the heavyweights of business and labor unions into the ring, and captured the national spotlight for weeks. Not since the pre-Civil War era, when the industrial North and the agricultural South squared off in Congress over import tariffs, had trade issues generated such intense interest.

WTO and NAFTA

The latest round of GATT talks (which led to the creation of the WTO) was concluded in 1993 after seven years of negotiations. Free trade advocates were generally pleased that services had been on the GATT agenda for the first time and that the accord produced a major breakthrough in agriculture. The agreement also required participating countries to lower tariffs and respect copyright laws on computer software, music, and other intellectual property. However, several of the thorniest issues — including entertainment and financial services — were not included in the agreement.

Trade specialists are already looking ahead to a further expansion of the WTO. The next round of talks will probably reconsider services. A more sensitive issue is removing non-tariff barriers to trade — an area of special interest to the United States.

Over the years, non-tariff barriers have risen worldwide even as import tariffs have fallen. Some non-tariff barriers are fair. Virtually every country, for example, regulates trade to protect the health and safety of its citizens. In some cases, however, these rules have been crafted to discriminate against imports. American companies often complain that the close relationship between Japanese manufacturers and Japanese retailers effectively keeps American exports out of stores in Japan. Many governments also reinforce non-tariff barriers by favoring local companies in their purchasing decisions.

The approval of NAFTA marked a departure from the strategy that has driven U.S. involvement in the WTO. While the scope of the WTO is global, NAFTA is limited to the United States, Mexico, and Canada. The goals of NAFTA, however, are much more ambitious than those of the WTO. The WTO sets rules to promote more open trade, while NAFTA aims to eliminate trade barriers entirely. The agreement represents an acknowledgment by American leaders that the United States, like the countries of the EU, is better off in a regional trading bloc. Canada has long been our country's leading trade partner, while Mexico ranks third behind Canada and Japan.

Trade analysts see NAFTA as a source of leverage for the United States in dealing with the countries of the EU and East Asia. NAFTA's most lasting impact, however, may have more to do with our country's changing relationship with Mexico. NAFTA marks a bold attempt to bridge the wide economic gulf between the developed nations of the United States and Canada and the developing economy of Mexico. During the agreement's first year, the results were generally positive. U.S.-Mexican trade hit record levels, rising over 20 percent.

A financial crisis that struck Mexico in December 1994, however, torpedoed hopeful projections. As the Mexican peso lost nearly half its value against the dollar, Mexican imports sank. After four consecutive years of trade surpluses, the United States recorded a trade deficit with Mexico of $15 billion in 1995. To help

stabilize the peso, President Bill Clinton came forward with a nearly $20 billion package of loan guarantees. His response left little doubt that NAFTA had increased Washington's stake in the health of the Mexican economy.

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New partnerships

U.S. participation in the WTO and NAFTA will come up for review periodically in the next few years. Meanwhile, the discussion about U.S. trade policy has already moved beyond the current agreements to the possibility of creating a huge new trading bloc involving countries of the Pacific Rim and broadening NAFTA to incorporate the entire Western Hemisphere.

The initiative in the Pacific Rim revolves around the Asia-Pacific Economic Cooperation (APEC) group. In 1993, Clinton convened the first summit of APEC's eighteen member states and nudged the group toward forming a regional trading bloc. In 1995, APEC members agreed to voluntary guidelines for establishing a free-trade zone. Developed countries would be expected to lower their trade barriers by 2010, while developing nations would be given until 2020.

The potential of a Pacific Rim free-trade zone is tantalizing. The APEC countries, which include China, South Korea, and other booming East Asian economies, are home to more than 2 billion people and account for more than half the world's output. The road to an APEC trade pact, however, promises to be bumpy. The United States and Australia have been the strongest advocates of free trade within the group. In contrast, many of APEC's East Asian members have achieved strong economic growth while maintaining high tariffs and other protectionist measures. Most observers believe that APEC is decades away from achieving the tightly knit integration of the fifteen-nation EU.

Progress on the southward expansion of NAFTA is likely to come much sooner. In 1994, thirty-four leaders of countries in the Western Hemisphere approved a declaration calling for the formation of a free-trade area in the Americas by 2005. Chile, which is hailed by free-trade advocates as a model of economic reform, is considered first in line to be included in NAFTA. There are also proposals to combine features of NAFTA with those of other regional trade pacts, such as the Mercosur union of Brazil, Argentina, Uruguay, and Paraguay.

Voices of opposition

The fanfare of economic summits and trade accords has not quieted the debate on the direction of U.S. trade policy. On the contrary, critics of free trade have refined their objections in recent years. From an economic perspective, they contend that heightened global competition will harm millions of Americans. They are particularly concerned with the fate of relatively unskilled factory workers who are least able to cope with economic change. NAFTA foes point to the Labor Department's estimate that the pact resulted in the loss of more than 40,000 American manufacturing jobs in 1994 and 1995.

The chief beneficiaries of NAFTA and the WTO, according to opponents of the accords, are huge corporations that take advantage of cheaper labor costs in Mexico and other countries of the developing world. They warn that the agreements put pressure on the United States to weaken its standards on

environmental protection and worker safety.

Free trade critics also fear that expanded trade ties will increase the authority of international bureaucrats at the expense of U.S. sovereignty. They are especially suspicious of the WTO, the body that has put teeth in the rules that govern global trade. Under GATT, each participating country had the power to veto GATT decisions. The WTO has eliminated veto power. Instead, member states are obliged to comply with WTO rulings in international trade disputes.

The WTO has become a favorite target of free trade opponents. Environmentalists, labor union leaders, and consumer advocates argue that foreign countries will use the WTO to attack U.S. regulations as unfair trade barriers. Laws intended to protect the environment, workers' rights, and the health and safety of consumers could be especially vulnerable.

The WTO's first major ruling in an international dispute gave critics reason for concern. In January 1996, the WTO determined that the U.S. Clean Air Act discriminated against foreign refiners of gasoline. The case was brought by Venezuela and Brazil, which charged that imported gasoline was held to a stricter standard for emissions in some instances than gasoline produced by American companies.

Before approving America's entry into the WTO in 1994, the Senate insisted that President Clinton form a panel of judges to review WTO decisions. If the panel finds that the United States has been subjected to three unfair rulings over a five-year period, Congress could vote for U.S. withdrawal from the trade agreement.

The foreign policy connection

The trade debate also continues to spill over into the realm of foreign policy. Trade policy has often been viewed as a tool for promoting democracy, human rights, and environmental protection. Much of the debate has centered on China, the fourth-largest U.S. trading partner in recent years. The U.S. trade deficit with China hit $34 billion in 1995.

Critics of China's policies have favored withdrawing Beijing's most-favored-nation status (which allows countries to import goods to the United States at the lowest tariff rates) to convince China to improve its human rights record. They have focused in particular on China's use of prison labor, the persecution of political dissidents, and the repression of Tibetan culture.

President Clinton, however, has backed away from his earlier commitment to link U.S.-Chinese trade with human rights issues and has sought to avoid a confrontation with China's communist leaders. Instead, Clinton has concentrated on pressing China to crack down on pirate factories that reproduce American-made computer software and musical recordings without paying copyright fees. He has also raised objections to China's sales of nuclear technology to Pakistan.

Meanwhile, trade disputes between the United States and its partners in the developed world have continued to gain attention. American trade relations with Japan are a long-standing sore point. Our country's trade deficit with Japan totaled $59 billion in 1995, larger than the U.S. deficit with any other country.

Under President Clinton, the United States has taken a more assertive tone toward Japan. Clinton

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has pushed the Japanese to boost consumer demand for American goods. Japan's imports from the United States have increased in recent years, but Tokyo has sidestepped efforts to set specific targets for reducing Japan's trade surplus with the United States.

Government's Role in the Economy

While wrestling over international trade issues, Clinton administration officials have been attracted to the government-industry partnerships prevalent among many of America's trading partners. The president, for example, has called for cooperation between Washington and business to develop a new generation of fuel-efficient cars and to spur advances in information technologies.

In suggesting that the United States pursue an industrial policy to gain a competitive edge, Clinton's advisers are reviving a notion that had been articulated by Alexander Hamilton two centuries earlier. In the 19th century, Hamilton's recommendations were put into practice. Government contracts, especially for the armed forces, were aimed at stimulating strategic sectors of manufacturing.

World War II and the Cold War prompted government-industry partnerships in the name of national security. In the 1970s, the U.S. government promoted the development of synthetic fuels to lessen the country's dependence on imported oil. The energy industry, however, lost its enthusiasm for the project after oil prices began falling in the 1980s. Other examples of government-industry cooperation were more successful. In 1987, the government teamed up with a group of American computer chip makers to explore high-risk areas of research, and to open communication channels between computer chip manufacturers and suppliers of manufacturing equipment. The results of this effort, known as Sematech, were credited in part with reversing the decline of the American computer chip industry.

Weighing industrial policy

Clinton administration officials see Sematech as a model for government-industry cooperation and claim that the approach can be applied to their plans to develop more fuel-efficient cars. Other industry executives, including aerospace and textile manufacturers, have lobbied for similar government assistance.

Meanwhile in Japan, officials have had second thoughts about government efforts to strengthen Japan's economic position in world markets. The system of government planning that helped make Japan's automobile and electronics industries world leaders has been less successful in high-technology fields.

In the early 1980s, for example, Japan's government joined forces with top corporations to spur forward the computer industry. The partnership, however, was not nimble enough to keep pace with the rapid advances generated by small computer companies.

Among Americans, the Japanese experience has produced contradictory interpretations. For those who admire Japan's industrial policy, Japanese government-industry cooperation offers lessons that Americans should consider. They argue that, as in Japan, the U.S. concept of national security should include a commitment to the vitality of critical industries, such as aviation and computers. Critics, however, insist that the involvement of government is often a negative force. They maintain that Washington inevitably favors large corporations with political influence, and stifles initiative and innovation.

Conclusion

You will have an opportunity in the coming days to consider a range of alternatives for U.S. trade policy. Each of the three viewpoints, or options, that you will explore in the next part of this unit is based on a distinct set of values and beliefs. Each addresses issues involving both trade policy and the government's role in the economy. You should think of the options as a tool designed to help you better understand the contrasting strategies from which Americans may choose. At the end of this unit, you will be asked to make your own choices about where U.S. policy should be heading.

Options in Brief

Option 1 — Promote Free Trade

Since the end of World War II, the United States and many of its chief trading partners have enjoyed unprecedented prosperity and economic growth. Underlying this era of progress have been the principles of free trade. More open trade has provided American consumers with better products at lower prices. Moreover, the growth of trade has cemented our country's alliances with Western Europe and Japan, and built bridges across the lines of politics and culture. More than ever, the United States is in a position today to reap the benefits of the free trade. Our technological expertise has given us the lead in many promising industries of the future, including biotechnology, telecommunications, and computer software. To back away now from our commitment to free trade would be a setback not only for the United States, but for the entire world.

Option 2 — Protect American Workers

For nearly five decades, the United States has been the world's generous uncle. We have opened our doors to imported goods while other countries have shielded their industries behind high tariffs and impenetrable regulations. For a couple of decades after World War II, the United States perhaps could afford to play this role, but that era has long since passed. The United States has lost the lead in automobiles, electronics, shipbuilding, and other vital industries. Our country has recorded big trade deficits for well over a decade. The time has come to fight back. U.S. trade policy must put the interests of American workers above the naive goal of free trade. U.S. trade policy must focus on stemming the flow of jobs overseas and protecting our industries from unfair foreign competition. At home, we must invest in the skills of our workers through expanded government retraining programs.

Option 3 — Chart Our Economic Course

In the world of economics, victory goes to those who adapt to change. We have to redefine our conception of national security and recognize that our economic future lies at the core of U.S. interests. If the United States is to be a leader in the high-technology, information-oriented world of tomorrow, we must commit ourselves today to a plan for the future. Global economic competition demands a new relationship between government, industry, and education. To develop the technologies of tomorrow, the government must take an active role in identifying areas of promise, investing in research, and promoting exports. American companies in these industries should enjoy the same privileges as their counterparts in East Asia and Western Europe.

Option 1

Promote Free Trade

Since the end of World War II, the United States and many of its chief trading partners have enjoyed unprecedented prosperity and economic growth. Underlying this era of progress have been the principles of free trade. After World War II, the United States took the lead in creating an international economic system that recognized the critical importance of free trade and the free market. We helped the countries of Western Europe and Japan get back on their feet because we understood that the economic health of our trading partners was vital to our own well-being. Although many barriers to trade remain, progress in lowering tariffs has produced results. World trade has soared, living standards have risen, and new technologies have emerged. More open trade has provided American consumers with better products at lower prices. Moreover, the growth of trade has cemented our country's alliances with Western Europe and Japan, and built bridges across the lines of politics and culture. Free trade gives all nations a stake in safeguarding international peace and prosperity.

Now more than ever, the United States is in a position to reap the benefits of free trade. Our technological expertise has given us the lead in many promising industries of the future, including biotechnology, telecommunications, and computer software. American ingenuity, without the heavy hand of government interference, continues to produce cutting-edge technology. In addition, the countries of East Asia, as well as Canada and Mexico, are increasingly showing a commitment to free trade. To back away now from our commitment to free trade would be a setback not only for the United States, but for the entire world. To impose government industrial policy in place of free-market competition would undermine the overall efficiency of our economy. With its cultural diversity, outstanding universities, and forward-looking industries, the United States can compete successfully with any country in the world.

What policies should we pursue?

- The United States should reject foreign policy measures that interfere with our trade interests, especially with respect to China and other key trading partners.
- The United States should press for the expansion of NAFTA and the WTO, and promote the creation of a new Pacific Rim trading bloc.
- The United States should create a level playing field for companies that do business in more than one country by applying the same standards to all corporations and pressuring other countries to do the same.
- The United States should use foreign aid and trade benefits to reward poor, developing countries that follow free-trade policies.

How would Option 1 affect us?

Under Option 1, free trade is expected to increase economic growth in the long run. As markets open, however, there would be both winners and losers. Well-paying, highly specialized jobs would be created, while low-wage, low-skill manufacturing jobs would be shifted abroad. Those working in industries tied to exports would most likely benefit. Americans with high levels of education and a willingness to move to where new industries emerge would be the biggest winners. On the negative side, Americans with few skills and little education would be hurt by increased competition. Some of the jobs they hold would likely be transferred to low-wage countries in Latin America and Asia.

PROS

SUPPORTING ARGUMENTS

1. Increased trade will spur greater economic growth, improve the overall standard of living, and provide American consumers with better products.

2. Free trade will give rise to an international system in which all nations have an interest in maintaining peace, stability, and worldwide economic growth.

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3. Promoting more open trade with Mexico and our other neighbors to the south will reduce poverty in Latin America, ease the flow of illegal immigrants into the United States, and expand the market for American goods.

4. The free, open competition of the marketplace will sharpen the efficiency of American industry and encourage innovation.

CONS

OPPOSING ARGUMENTS

1. Under free trade, the laws of the marketplace will result in the transfer of millions of American manufacturing jobs abroad.

2. Free trade will lead to a weakening of worker safety and environmental standards, and prompt cutbacks in education and social services as the United States faces greater competition from poor, developing countries.

3. The blind pursuit of free trade will leave high-tech industries at a disadvantage in competing against government-supported companies in East Asia and Western Europe.

4. Going forward with NAFTA will force American workers to compete head-to-head with poorly paid Mexican workers and undermine U.S. efforts to guard our borders against drug traffickers and terrorists.

5. Placing the principle of free trade ahead of vital foreign policy interests will require U.S. leaders to turn a blind eye to the reckless behavior of international bullies, such as China and Russia.

Option 2

PROTECT AMERICAN WORKERS

For nearly five decades, the United States has been the world's generous uncle. We have opened our doors to imported goods while other countries have shielded their industries behind high tariffs and impenetrable regulations. We have protected our allies in Western Europe and East Asia militarily while they have grown rich and powerful. For a couple of decades after World War II, the United States perhaps could afford to play this role, but that era has long since passed. Instead, we have to accept the realities of the global economic system rather than try to change them to fit our idealistic principles. In the real world, our economic competitors have largely ignored the principles of free trade. They have played on our foreign policy concerns to squeeze advantages from us and to avoid paying their fair share of defense costs. Meanwhile, the United States has lost the lead in automobiles, electronics, shipbuilding, and other vital industries. Our country has recorded big trade deficits for well over a decade. The time has come to fight back.

U.S. trade policy must put the interests of American workers above the naive goal of free trade. The facts are that the United States has lost about 17 percent of its manufacturing jobs since 1980. These were jobs that allowed American workers to provide their families a decent standard of living and buy the cars, clothes, and computers that other Americans made. Our economy cannot be strong without a healthy manufacturing sector, and our manufacturing sector cannot be healthy if the purchasing power of American workers is eroded. More than any other group, workers have suffered from our country's misguided trade policy. Their flesh-and-blood concerns can no longer be neglected, regardless of what economic theories say. U.S. trade policy must focus on stemming the flow of jobs overseas and protecting our industries from unfair foreign competition. At home, we must invest in the skills of our workers through expanded government retraining programs. Let us not forget the men and women who built this country.

What policies should we pursue?

- The United States should withdraw from NAFTA and press for more favorable terms under the WTO.

- The United States should retaliate against countries that erect unfair trade barriers to keep American goods out of their markets or fail to protect the rights of their workers.

- The United States should substantially expand programs designed to retrain American workers.

- The United States should use tax policy to discourage American companies from transferring manufacturing jobs abroad and to encourage foreign companies doing business in the United States to base their factories in this country.

How would Option 2 affect us?

Under Option 2, promoting the interests of American workers by restricting free trade is expected to change the direction of the U.S. economy. In the long run, the pace of economic growth would be slower, but average American workers would have a better chance of holding onto their jobs. Those likely to gain from Option 2 would be Americans working in well-established industries, such as automobiles and steel. Those without advanced skills would also benefit from government training programs. On the negative side, business managers would have fewer opportunities to cut manufacturing costs by moving jobs abroad. Some companies would lose export markets as a result. A decline in trade would also hurt Americans who work in leading export industries, such as agriculture, aviation, and financial services.

PROS

SUPPORTING ARGUMENTS

1. Taking a tough stance on trade issues will force other countries to either play fair or drop out of the competition for the American market.

2. By taking control over the pace of economic change, the United States will head off the social chaos and the widening gap between rich and poor that threatens to tear our society apart.

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3. By investing in the retraining of American workers, the United States will strengthen the overall competitiveness of the U.S. economy.

4. Ensuring a healthy manufacturing base will protect the purchasing power of American workers and contribute to the overall strength of the economy.

CONS

OPPOSING ARGUMENTS

1. Raising U.S. trade barriers will set off a trade war that will reduce exports worldwide, tip the global economy into a depression, and send the U.S. economy sliding toward inefficiency and backwardness.

2. Erecting barriers against outside competition will deprive consumers of a wide selection of goods and drive up prices on much of what we buy.

3. Taking a hostile stance toward our trading partners and withdrawing from NAFTA will create an atmosphere of international tension similar to the period of the 1930s and undermine the stability of Mexico.

4. Imposing new restrictions on American businesses will lead to lower corporate profits and falling returns for tens of millions of ordinary American investors.

5. Investing in retraining programs for workers while neglecting research and development will add to the budget deficit and do little to improve our economic competitiveness in the high-tech fields of tomorrow.

Option 3

Chart Our Economic Course

In the world of economics, victory goes to those who adapt to change. For most of our country's history, the United States has stayed ahead of the forces of change. In the last couple of decades, however, the countries of East Asia have often set the pace in emerging industries. The direction of the global economy is clear. We have to redefine our conception of national security and recognize that our economic future lies at the core of U.S. interests. If the United States is to be a leader in the high-technology, information-oriented world of tomorrow, we must commit ourselves today to a plan for the future.

Global economic competition demands a new relationship between government, industry, and education. Just as governments in East Asia and Western Europe work as partners with business, so too should U.S. leaders from the public and private sectors work together to achieve national economic goals. To develop the technologies of tomorrow, the government must take an active role in identifying areas of promise, investing in research, and promoting exports. Not every industry can be saved. In low-skill, labor-intensive areas of manufacturing, such as cheap clothing and low-priced electronics, the United States can no longer compete. That means, however, that we must focus our resources all the more on areas in which we hold an advantage. American companies in these industries should enjoy the same privileges as their counterparts in East Asia and Western Europe. U.S. trade policy should shield these firms from unfair competition. By concentrating on the long term, we can create an economy that will put the United States on the cutting edge of technology and restore the health of American industries.

What policies should we pursue?

- The United States should focus its trade relations on opening up new markets for American computer software, telecommunications equipment, and other high-tech products.

- The United States should protect critical industries by restricting the foreign licensing of technologies developed in the United States and ensuring that foreign companies are not allowed to capture the American market.

- The United States should substantially increase its investment in the research and development of cutting edge industries, partially by shifting research funds from the defense budget to commercial areas.

- The United States should provide tax breaks and export assistance to companies that create jobs in high-tech fields.

How would Option 3 affect us?

Under Option 3, the pursuit of a more systematic national industrial policy is expected to make the American economy more like that of Japan and the countries of Western Europe. Government planning would likely result in major shifts in the overall economy. For Americans with a scientific or engineering background, there would be more jobs in research and development. Americans working in industries that hold promise for the future, such as biotechnology and telecommunications, would also benefit from government assistance. On the negative side, Americans working in companies that do not receive government help would be at a competitive disadvantage and may lose their jobs. Low-skilled workers in uncompetitive industries could also face dim prospects for the future.

PROS

SUPPORTING ARGUMENTS

1. Channeling government assistance to critical industries will ensure that the United States remains competitive in areas that are vital to our national security.

2. Developing a strong partnership between government and industry will give the United States added leverage in international trade negotiations.

&

3. Combining the resources of government and industry will put the United States in the same league as Western Europe and Japan in the competition for developing important new technologies.

4. Expanding research and development will allow the United States to employ the talents of scientists and engineers who have lost their jobs due to recent cuts in defense.

CONS

OPPOSING ARGUMENTS

1. Allowing the government to pick winners and losers in our rapidly changing economy will favor big corporations with influence in Washington and leave small, innovative companies at a disadvantage.

2. As the collapse of the Soviet Union illustrates, government direction of the economy results in multi-billion dollar mistakes, bureaucratic red tape, and corruption.

3. Focusing on national priorities is out of step in an age when big multinational corporations operate in many countries.

4. Placing research and development above the needs of workers will do little to improve the lives of the majority of Americans.

5. Government spending on expensive programs to develop unproven technologies will add to the budget deficit and produce few returns.

Focusing Your Thoughts

Instructions: You have had an opportunity to consider three options on U.S. trade policy. Now it is your turn to look at each of the options from your own perspective. Try each one on for size. Think about how the options address your concerns and hopes. You will find that each has its own risks and trade-offs, advantages and disadvantages. After you complete this worksheet, you will be asked to develop your own option on this issue.

Ranking the Options

Which of the options below do you prefer? Keep in mind that the beliefs you support most strongly should guide your choice. Rank the options, with "1" being the best option for the United States to follow.

____ **Option 1: Promote Free Trade**

____ **Option 2: Protect American Workers**

____ **Option 3: Chart Our Economic Course**

Beliefs

Rate each of the statements below according to your personal beliefs:

1 = Strongly Support
2 = Support
3 = Oppose
4 = Strongly Oppose
5 = Undecided

____ The economic prosperity of our trading partners contributes to the prosperity of Americans as well.

____ In the global economy, one country's gain is usually another country's loss.

____ The government has an important role to play in guiding our economic development.

____ Government involvement in the economy interferes with the free market and undermines our economic strength in the long run.

____ The success or failure of trade policy can be judged by how it affects American workers.

____ The main economic goal of U.S. policy should be promoting the overall growth of the U.S. economy.

____ Our country's leadership role in upholding the international economic system has contributed to peace and prosperity at home and abroad.

____ Our trading partners have taken advantage of U.S. policies to enrich themselves at our expense.

Creating Your Own Option

Your assignment is to create an option that reflects your own beliefs and opinions. You may borrow heavily from one option, or you may combine ideas from two or three options. Or you may take a new approach altogether. There are, of course, no perfect solutions. And there is no right or wrong answer. Rather, you should strive to craft an option that is logical and persuasive. Be careful of contradictions. For example, we cannot raise tariffs to protect American auto workers and at the same time be seen as an international champion of free trade.

Supplementary Documents for the Teacher

Description of the North American Free Trade Agreement

Prepared by the governments of Canada, the United Mexican States and the United States of America, August 12, 1992 (condensed)

Preamble

The Preamble to the NAFTA sets out the principles and aspirations on which the Agreement is based. It affirms the three countries' commitment to promoting employment and economic growth in each country through the expansion of trade and investment opportunities in the free trade area and by enhancing the competitiveness of Canadian, Mexican and U.S. firms in global markets, in a manner that protects the environment. The Preamble confirms the resolve of the NAFTA partners to promote sustainable development, to protect, enhance and enforce workers' rights and to improve working conditions in each country.

Objectives

The opening provisions of the NAFTA formally establish a free trade area between Canada, Mexico and the United States, consistent with the General Agreement on Tariffs and Trade (GATT). They set out the basic rules and principles that will govern the Agreement and the objectives that will serve as the basis for interpreting its provisions.

The objectives of the Agreement are to eliminate barriers to trade, promote conditions of fair competition, increase investment opportunities, provide adequate protection for intellectual property rights, establish effective procedures for the implementation and application of the Agreement and for the resolution of disputes and to further trilateral, regional and multilateral cooperation. The NAFTA countries will meet these objectives by observing the principles and rules of the Agreement, such as national treatment, most-favored-nation treatment and procedural "transparency."

Each country affirms its respective rights and obligations under the GATT and other international agreements. For purposes of interpretation, the Agreement establishes that the NAFTA takes priority over other agreements to the extent there is any conflict, but provides for exceptions to this general rule. For example, the trade provisions of certain environmental agreements take precedence over NAFTA, subject to a requirement to minimize inconsistencies with the Agreement.

The opening provisions also set out a general rule regarding the application of the Agreement to sub-federal levels of government in the three countries. In addition, this section defines terms that apply to the whole Agreement, to ensure uniform and consistent usage.

Rules of Origin

NAFTA eliminates all tariffs on goods originating in Canada, Mexico and the United States over a "transition period." Rules of origin are necessary to define which goods are eligible for this preferential tariff treatment.

This section of the Agreement is designed to ensure that NAFTA benefits are accorded only to goods produced in the North American region — not goods made wholly or in large part in other countries; to provide clear rules and predictable results; and to minimize administrative burdens for exporters, importers and producers trading under NAFTA.

The rules of origin specify that goods originate in North America if they are wholly North American. Goods containing non-regional materials are also considered to be North American if the non-regional materials are sufficiently transformed in the NAFTA region so as to undergo a specified change in tariff classification. In some cases, goods must include a specified percentage of North American content in addition to meeting the tariff classification requirement. The rules of origin section also contains a provision similar to one in the Canada-United States Free Trade Agreement (FTA) that allows goods to be treated as originating when the finished good is specifically named in the same tariff subheading as its parts and it meets the required value content test.

Regional value content may be calculated using either the "transaction-value" or the "net-cost" method. The transaction-value method is based on the price paid or payable for a good; this avoids the need for complex cost accounting systems. The net-cost method is based on the total cost of the good less the costs of royalties, sales promotion, and packing and shipping. Additionally, the net-cost method sets a limitation on allowable

interest. Although producers generally have the option to use either method, the net-cost method must be used where the transaction value is not acceptable under the GATT Customs Valuation Code, and must also be used for certain products, such as automotive goods.

In order to qualify for preferential tariff treatment, automotive goods must contain a specified percentage of North American content (rising to 62.5 percent for passenger automobiles and light trucks as well as engines and transmissions for such vehicles, and to 60 percent for other vehicles and automotive parts) based on the net-cost formula. In calculating the content level of automotive goods, the value of imports of automotive parts from outside the NAFTA region will be traced through the production chain to improve the accuracy of the content calculation. Regional content averaging provisions afford administrative flexibility for automotive parts producers and assemblers.

A de minimis rule prevents goods from losing eligibility for preference solely because they contain minimal amounts of "non-originating" material. Under this rule, a good that would otherwise fail to meet a specific rule of origin will nonetheless be considered to be North American if the value of non-NAFTA materials comprises no more than 7 percent of the price or total cost of the good.

Trade in Goods

National Treatment — The NAFTA incorporates the fundamental national treatment obligation of the GATT. Once goods have been imported into one NAFTA country from another NAFTA country, they must not be the object of discrimination. This commitment extends to provincial and state measures.

Market Access — These provisions establish rules governing trade in goods with respect to customs duties and other charges, quantitative restrictions, such as quotas, licenses and permits, and import and export price requirements. They improve and make more secure the access for goods produced and traded within North America.

Elimination of Tariffs: The NAFTA provides for the progressive elimination of all tariffs on goods qualifying as North American under its rules of origin. For most goods, existing customs duties will either be eliminated immediately or phased out in five or 10 equal annual stages. For certain sensitive items, tariffs will be phased out over a period of up to 15 years. Tariffs will be phased out from the applied rates in effect on July 1, 1991, including the U.S. Generalized System of Preferences (GSP) and the Canadian General Preferential Tariff (GPT) rates. Tariff phase-outs under the Canada-U.S. FTA will continue as scheduled under that Agreement. The NAFTA provides that the three countries may consult and agree on a more rapid phase-out of tariffs.

Import and Export Restrictions: All three countries will eliminate prohibitions and quantitative restrictions applied at the border, such as quotas and import licenses. However, each NAFTA country maintains the right to impose border restrictions in limited circumstances, for example, to protect human, animal or plant life or health, or the environment. Special rules apply to trade in agriculture, autos, energy and textiles.

Textiles and Apparel

This section provides special rules for trade in fibers, yarns, textiles and clothing in the North American market. The NAFTA textiles and apparel provisions take precedence over those of the Multifiber Arrangement and other agreements between NAFTA countries applicable to textile products.

Elimination of Tariff and Non-Tariff Barriers — The three countries will eliminate immediately or phase out over a maximum period of 10 years their customs duties on textile and apparel goods manufactured in North America that meet the NAFTA rules of origin. In addition, the United States will immediately remove import quotas on such goods produced in Mexico, and will gradually phase out import quotas on Mexican textile and apparel goods that do not meet such rules. No NAFTA country may impose any new quota, except in accordance with specified "safeguards" provisions.

Safeguards — If textile or apparel producers face serious damage as a result of increased imports from another NAFTA country, the importing country may, during the "transition period," either increase tariffs or, with the exception of Canada-U.S. trade, impose quotas on the imports to provide temporary relief to that industry, subject to specific disciplines. In the case of goods that meet NAFTA's rules of origin, the importing country may take safeguard actions only in the form of tariff increases.

Automotive Goods

The NAFTA will eliminate barriers to trade in North American automobiles, trucks, buses and parts ("automotive goods") within the free trade area, and eliminate

investment restrictions in this sector, over a 10-year transition period.

Tariff Elimination — Each NAFTA country will phase out all duties on its imports of North American automotive goods during the transition period. Most trade in automotive goods between Canada and the United States is conducted on a duty-free basis under the terms of either the Canada-U.S. FTA or the Canada-U.S. "Autopact."

Vehicles: Canada and the United States eliminated tariffs on their trade in vehicles under the Canada-U.S. FTA. Under the NAFTA, for its imports from Mexico, the United States will eliminate immediately its tariffs on passenger automobiles; reduce immediately to 10 percent its tariffs on light trucks and phase out the remaining tariffs over five years; and phase out its tariffs on other vehicles over 10 years. For imports from Canada and the United States, Mexico will reduce immediately by 50 percent its tariffs on passenger automobiles and phase out the remaining tariffs over 10 years; reduce immediately by 50 percent its tariffs on light trucks and phase out the remaining tariffs over five years; and phase out its tariffs on all other vehicles over 10 years. Canada will eliminate its tariffs on vehicles imported from Mexico on the same schedule as Mexico will follow for imports from Canada and the United States.

Parts: Each country will eliminate its remaining tariffs on certain automotive parts immediately and phase out duties on other parts over five years and a small portion over 10 years.

Energy and Basic Petrochemicals

This section sets out the rights and obligations of the three countries regarding crude oil, gas, refined products, basic petrochemicals, coal, electricity and nuclear energy.

In the NAFTA, the three countries confirm their full respect for their constitutions. They also recognize the desirability of strengthening the important role that trade in energy and basic petrochemical goods plays in the North American region and of enhancing this role through sustained and gradual liberalization.

The NAFTA's energy provisions incorporate and build on GATT disciplines regarding quantitative restrictions on imports and exports as they apply to energy and basic petrochemical trade. The NAFTA provides that under these disciplines a country may not impose minimum or maximum import or export price requirements, subject to the same exceptions that apply to quantitative restrictions. The NAFTA also makes clear that each country may administer export and import licensing systems, provided that they are operated in a manner consistent with the provisions of the Agreement. In addition, no country may impose a tax, duty or charge on the export of energy or basic petrochemical goods unless the same tax, duty or charge is applied to such goods when consumed domestically.

This section also provides that import and export restrictions on energy trade will be limited to certain specific circumstances, such as to conserve exhaustible natural resources, deal with a short supply situation or implement a price stabilization plan.

Agriculture

The NAFTA sets out separate bilateral undertakings on cross-border trade in agricultural products, one between Canada and Mexico, and the other between Mexico and the United States. Both include a special transitional safeguard mechanism. As a general matter, the rules of the Canada-U.S. FTA on tariff and non-tariff barriers will continue to apply to agricultural trade between Canada and the United States. Trilateral provisions in the NAFTA address domestic support for agricultural goods and agricultural export subsidies.

Tariffs and Non-Tariff Barriers — Trade between Mexico and the United States: When the Agreement goes into effect, Mexico and the United States will eliminate immediately all non-tariff barriers to their agricultural trade, generally through their conversion to either "tariff-rate quotas" (TRQs) or ordinary tariffs.

The TRQs will facilitate the transition for producers of import-sensitive products in each country. No tariffs will be imposed on imports within the quota amount. The quantity eligible to enter duty-free under the TRQ will be based on recent average trade levels and will grow generally at 3 percent per year. The over-quota duty — initially established at a level designed to equal the existing tariff value of each non-tariff barrier — will progressively decline to zero during either a 10- or 15-year transition period, depending on the product.

Under the NAFTA, Mexico and the United States will eliminate immediately tariffs on a broad range of agricultural products. This means that roughly one-half of U.S.-Mexico bilateral agricultural trade will be duty-free when the Agreement goes into effect. All tariff

barriers between Mexico and the United States will be eliminated no later than 10 years after the Agreement takes effect, with the exception of duties on certain highly sensitive products — including corn and dry beans for Mexico, and orange juice and sugar for the United States. Tariff phase-outs on these few remaining products will be completed after five more years.

Mexico and the United States will gradually liberalize bilateral trade in sugar. Both countries will apply TRQs of equivalent effect on third country sugar by the sixth year after the Agreement goes into effect. All restrictions on trade in sugar between the two countries will be eliminated by the end of the 15-year transition period, except that sugar exported under the U.S. Sugar Re-Export Programs will remain subject to most-favored-nation (MFN) tariff rates.

Sanitary and Phytosanitary Measures

This section imposes disciplines on the development, adoption and enforcement of sanitary and phytosanitary (SPS) measures, namely those taken for the protection of human, animal, or plant life or health from risks arising from animal or plant pests or diseases, food additives or contaminants. These disciplines are designed to prevent use of SPS measures as disguised restrictions on trade, while safeguarding each country's right to take SPS measures to protect human, animal or plant life or health.

Basic Rights and Obligations — The NAFTA confirms the right of each country to establish the level of SPS protection that it considers appropriate and provides that a NAFTA country may achieve that level of protection through SPS measures that are based on scientific principles and a risk assessment; are applied only to the extent necessary to provide a country's chosen level of protection; and do not result in unfair discrimination or disguised restrictions on trade.

Technical Standards

This section applies to standards-related measures, namely standards, governmental technical regulations and the procedures used to determine that these standards and regulations are met. It recognizes the crucial role of these measures in promoting safety and protecting human, animal and plant life and health, the environment and consumers. The three countries have agreed not to use standards-related measures as unnecessary obstacles to trade, and will cooperate and work towards the enhancement and compatibility of these measures in the free trade area.

Basic Rights and Obligations — The NAFTA affirms that each country maintains the right to adopt, apply and enforce standards-related measures, to choose the level of protection it wishes to achieve through such measures and to conduct assessments of risk to ensure that those levels are achieved. In addition, the NAFTA affirms each country's rights and obligations under the GATT Agreement on Technical Barriers to Trade and other international agreements, including environmental and conservation agreements.

The NAFTA also sets out certain disciplines on the use of standards-related measures, with a view to facilitating trade between the NAFTA partners. For example, each country must ensure that its standards-related measures provide both national treatment and most-favored-nation treatment. That is, they must ensure that goods or specified services from the other two countries are treated no less favorably than like goods or services of national origin, and like goods or services from non-NAFTA countries.

Emergency Action

This section of the Agreement establishes rules and procedures under which a NAFTA country may take "safeguard" actions to provide temporary relief to industries adversely affected by surges in imports. A transitional bilateral safeguard mechanism applies to emergency actions taken against import surges that result from tariff reductions under the NAFTA. A global safeguard applies to import surges from all countries.

The Agreement's procedures governing safeguard actions provide that relief may be imposed for only a limited period of time and require that the NAFTA country taking action must compensate the NAFTA country against whose good the action is taken. If the countries are not able to agree on the appropriate compensation, the exporting country may take trade measures of equivalent effect to compensate for the trade effect of the safeguard.

Review of Antidumping and Countervailing Duty Matters

The NAFTA establishes a mechanism for independent binational panels to review final antidumping (AD) and countervailing duty (CVD) determinations by administrative authorities in each country. Each country will make those changes to its law necessary to ensure effective panel review. This section also sets out procedures for panel review of future amendments to each country's antidumping and countervailing duty

laws. In addition, it establishes an "extraordinary challenge" procedure to deal with allegations that certain actions may have affected a panel's decision and the panel review process. Finally, the NAFTA creates a safeguard mechanism designed to remedy instances in which application of a country's domestic law undermines the functioning of the panel process.

Government Procurement

The Agreement opens a significant portion of the government procurement market in each NAFTA country on a non-discriminatory basis to suppliers from the other NAFTA countries for goods, services and construction services.

Cross-Border Trade in Services

The NAFTA expands on initiatives in the Canada-U.S. FTA and the Uruguay Round of multilateral trade negotiations to create internationally-agreed disciplines on government regulation of trade in services. The cross-border trade in services provisions establish a set of basic rules and obligations to facilitate trade in services between the three countries.

National Treatment — The Agreement extends to services the basic obligation of national treatment, which has long been applied to goods through the GATT and other trade agreements. Under NAFTA's national treatment rule, each NAFTA country must treat service providers of the other NAFTA countries no less favorably than it treats its own service providers in like circumstances.

With respect to measures of a state or province, national treatment means treatment no less favorable than the most favorable treatment that the state or province accords to the service providers of the country of which it forms a part.

Land Transportation

The NAFTA provides a timetable for the removal of barriers to the provision of land transportation services between the NAFTA countries and for the establishment of compatible land transport technical and safety standards. It provides for the phase out of restrictions on cross-border land transportation services among the three countries in order to create equal opportunities in the North American international land transportation market. The provisions are designed to ensure that the land transportation services industries of the three countries will have a full opportunity to enhance their competitiveness without being placed at a disadvantage during the transition to liberalized trade.

Telecommunications

NAFTA provides that public telecommunications transport networks ("public networks") and services are to be available on reasonable and non-discriminatory terms and conditions for firms or individuals who use those networks for the conduct of their business. These uses include the provision of enhanced or value-added telecommunications services and intracorporate communications. However, the operation and provision of public networks and services have not been made subject to the NAFTA.

Investment

The NAFTA removes significant investment barriers, ensures basic protections for NAFTA investors and provides a mechanism for the settlement of disputes between such investors and a NAFTA country.

Coverage — This section covers investments in one country by NAFTA investors from another NAFTA country. NAFTA investors include all enterprises with substantial business activities in a NAFTA country. Investment covers all forms of ownership and interests in a business enterprise, tangible and intangible property and contractual investment interests.

Non-Discriminatory and Minimum Standards of Treatment — Each country will treat NAFTA investors and their investments no less favorably than its own investors — national treatment — and investors of other countries — most-favored-nation treatment. With respect to measures of a state, provincial or local government, national treatment is defined to mean treatment no less favorable than the most favorable treatment accorded to investors of the country of which it forms a part. In addition, each country must provide investments of NAFTA investors treatment in accordance with international law, including fair and equitable treatment and full protection and security.

Competition Policy, Monopolies and State Enterprises

The NAFTA includes provisions on anticompetitive government and private business practices, in recognition that disciplines in this area will help fulfill the objectives of the Agreement.

Competition Policy — Each NAFTA country will adopt or maintain measures against anticompetitive business practices and will cooperate on issues of competition

law enforcement and other competition issues.

Financial Services

The NAFTA establishes a comprehensive principles-based approach to disciplining government measures regulating financial services. This section covers measures affecting the provision of financial services by financial institutions in the banking, insurance and securities sectors as well as other financial services. The section also sets out certain country-specific liberalization commitments, transition periods for compliance with the agreed principles and certain reservations listed by each country.

Principles — Commercial Presence and Cross-Border Services: Under the Agreement, financial service providers of a NAFTA country may establish in any other NAFTA country banking, insurance, and securities operations as well as other types of financial services. Each country must permit its residents to purchase financial services in the territory of another NAFTA country. In addition, a country may not impose new restrictions on the cross-border provision of financial services in a sector, unless the country has exempted that sector from this obligation.

Non-Discriminatory Treatment: Each country will provide both national treatment, including treatment respecting competitive opportunities, and most-favored-nation treatment to other NAFTA financial service providers operating in its territory. Under the Agreement, any measure that does not disadvantage financial service providers of another NAFTA country in their ability to provide financial services, by comparison to domestic providers, is deemed to provide equality of competitive opportunity.

Intellectual Property

Building on the work done in the GATT and various international intellectual property treaties, NAFTA establishes a high level of obligations respecting intellectual property. Each country will provide adequate and effective protection of intellectual property rights on the basis of national treatment and will provide effective enforcement of these rights against infringement, both internally and at the border.

The Agreement sets out specific commitments regarding the protection of copyrights, including sound recordings; patents; trademarks; plant breeders' rights; industrial designs; trade secrets; integrated circuits (semiconductor chips); and geographical indications.

Temporary Entry for Business Persons

Taking account of the preferential trading relationship between the NAFTA countries, this section sets out commitments by the three countries to facilitate on a reciprocal basis temporary entry into their respective territories of business persons who are citizens of Canada, Mexico, or the United States. The NAFTA does not create a common market for the movement of labor. Each NAFTA country maintains its rights to protect the permanent employment base of its domestic labor force, to implement its own immigration policies and to protect the security of its borders.

This section's rules governing entry of business persons, constructed along the lines of similar provisions of the Canada-U.S. FTA, are tailored to meet the needs of all NAFTA partners.

Each country will grant temporary entry to four categories of business persons: business visitors engaged in international business activities for the purpose of conducting activities related to research and design, growth, manufacture and production, marketing, sales, distribution, after-sales service and other general services; traders who carry on substantial trade in goods or services between their own country and the country they wish to enter, as well as investors seeking to commit a substantial amount of capital in that country, provided that such persons are employed or operate in a supervisory or executive capacity or one that involves essential skills; intra-company transferees employed by a company in a managerial or executive capacity or one that involves specialized knowledge and who are transferred within that company to another NAFTA country; and certain categories of professionals who meet minimum educational requirements or who possess alternative credentials and who seek to engage in business activities at a professional level in that country.

Institutional Arrangements and Dispute Settlement Procedures

Institutional Arrangements — This section establishes the institutions responsible for implementing the Agreement, ensuring its joint management and for avoiding and settling any disputes between the NAFTA countries regarding its interpretation and application.

Trade Commission: The central institution of the Agreement is the Trade Commission, comprising Ministers or cabinet-level officers designated by each country. Regular meetings are to be held annually, although the day-to-day work of the Commission will be carried out

by officials of the three governments participating in the various committees and working groups mandated by the Agreement, operating on the basis of consensus.

Administration of Laws

Procedural "Transparency" — This section provides rules designed to ensure that laws, regulations and other measures affecting traders and investors will be accessible and will be administered fairly and in accordance with notions of due process by officials in all three countries. Each country will also ensure, under its domestic laws, independent administrative or judicial review of government action relating to matters covered by the NAFTA.

Exceptions

The NAFTA includes provisions that ensure that the Agreement does not constrain a country's ability to protect its national interests.

Final Provisions

Entry into Force — This section provides that the Agreement will enter into force on January 1, 1994, upon completion of domestic approval procedures.

Accession — The NAFTA provides that other countries or groups of countries may be admitted into the Agreement if the NAFTA countries agree, and subject to terms and conditions that they require and to the completion of domestic approval in each country.

Amendments and Withdrawal — This section also provides for amendments to the Agreement, subject to domestic approval procedures. Any country may withdraw from the Agreement on six-months' notice.

Summary of Environmental Provisions

The three NAFTA countries have committed in the NAFTA to implementing the Agreement in a manner consistent with environmental protection and to promoting sustainable development. Specific provisions throughout the Agreement build upon these commitments.

The trade obligations of the NAFTA countries under the specified international environmental agreements regarding endangered species, ozone-depleting substances and hazardous wastes will take precedence over NAFTA provisions, subject to a requirement to minimize inconsistency with the NAFTA. This ensures that the NAFTA will not diminish a country's right to take action under these environmental agreements.

The Agreement affirms the right of each country to choose the level of protection of human, animal or plant life or health or of environmental protection that it considers appropriate.

NAFTA also makes clear that each country may maintain and adopt standards and sanitary and phytosanitary measures, including those more stringent than international standards, to secure its chosen level of protection.

The NAFTA countries will work jointly to enhance the protection of human, animal and plant life and health and the environment.

The Agreement provides that no NAFTA country should lower its health, safety or environmental standards for the purpose of attracting investment.

When a dispute regarding a country's standards raises factual issues concerning the environment, that country may choose to have the dispute submitted to NAFTA dispute settlement procedures rather than under the procedures of other trade agreements. This same option is available for disputes concerning trade measures taken under specified international environmental agreements.

NAFTA dispute settlement panels may call on scientific experts, including environmental experts, to provide advice on factual questions related to the environment and other scientific matters.

In dispute settlement, the complaining country bears the burden of proving that another NAFTA country's environmental or health measure is inconsistent with the NAFTA.

Publications List

The Choices for the 21st Century Education Project develops curricula for high schools and colleges on current foreign policy issues and offers workshops, institutes, and in-service programs for high school teachers. Course materials place special emphasis on the importance of educating students in their participatory role as citizens. All units incorporate the work of academics and policymakers from a range of perspectives and are classroom tested prior to publication. A new unit is published every three months during the academic year, and all units are updated regularly. For current information on new titles and revisions, call the Choices Education Project at (401) 863-3155 or visit the project on the World Wide Web at *http://www.brown.edu/Research/Choices/*.

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- The Role of the United States in a Changing World (Revised Nov. 1995, 44 pages)

Decision Points in History

- Ending the War against Japan: Science, Morality, and the Atomic Bomb (July 1995, 102 pages)
- Crisis, Conscience, and Choices: Weimar Germany and the Rise of Hitler (Nov. 1994, 84 pages)
- The Limits of Power: The United States in Vietnam (Nov. 1994, second edition, 119 pages)
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CHOICES

for the 21st Century Education Project

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The Choices for the 21st Century Education Project develops curricula for high schools and colleges on current foreign policy issues and offers workshops, institutes, and in-service programs for high school teachers. Course materials place special emphasis on the importance of educating students in their participatory role as citizens.

The Choices for the 21st Century Education Project is a program of the **Thomas J. Watson Jr. Institute for International Studies** at Brown University.

Thomas J. Biersteker
Director

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The Choices for the 21st Century Education Project is a program of the Thomas J. Watson Jr. Institute for International Studies at Brown University. Choices was established to help citizens think constructively about foreign policy issues, to improve participatory citizenship skills, and to encourage public judgment on policy priorities.

The Thomas J. Watson Jr. Institute for International Studies was established at Brown University in 1986 to serve as a forum for students, faculty, visiting scholars, and policy practitioners, who are committed to studying global problems and developing international initiatives to benefit society.

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About the Choices Approach

Choices for the 21st Century curricula are designed to make complex international issues understandable and meaningful for students. Using an innovative approach to student-centered instruction, Choices units develop critical thinking and civic judgment — essential ingredients of responsible citizenship.

Understanding the Significance of History: Each Choices unit provides students with a thorough introduction to the topic under consideration. Students gain an understanding of the historical background and the status of current issues. In this way, they see how history has shaped our world. With this foundation, students are prepared to thoughtfully consider a variety of perspectives on public policy.

Exploring Policy Alternatives: Each Choices unit is built around a framework of alternative policy options that challenges students to consider multiple perspectives and to think critically about the issue at hand. Students are best able to understand and analyze the options through a cooperative learning/role-play activity. In groups, students explore their assigned options and plan short presentations. The setting of the role-play may be a Congressional hearing, meeting of the National Security Council, or an election campaign forum. Student groups defend their policy options and, in turn, are challenged with questions from their classmates. The ensuing debate demands analysis and evaluation of the many conflicting values, interests, and priorities reflected in the options.

Exercising Civic Judgment: Armed with fresh insights from the role-play and debate, students are challenged to articulate original, coherent policy options that reflect their own values, priorities, and goals as individuals and citizens. Students' views can be expressed in letters to Congress or the White House, editorials for the school or community newspaper, persuasive speeches, or visual presentations.

Why Use the Choices Approach? Choices curricula are informed by current educational research about how students learn best. Studies have consistently demonstrated that students of all abilities learn best when they are actively engaged with the material rather than listening passively to a lecture. Student-centered instructional activities motivate students and develop higher-order thinking skills. However, some high school educators find the transition from lecture format to student-centered instruction difficult. Lecture is often viewed as the most efficient way to cover the required material. Choices curricula offer teachers a flexible resource for covering course material while actively engaging students and developing skills in critical thinking, persuasive writing, and informed citizenship. The instructional activities that are central to Choices units can be valuable components in any teacher's repertoire of effective teaching strategies. Each Choices unit includes student readings, a framework of policy options, suggested lesson plans, and resources for structuring cooperative learning, role-plays, and simulations. Students are challenged to:

- recognize relationships between history and current issues
- analyze and evaluate multiple perspectives on an issue
- understand the internal logic of a viewpoint
- engage in informed debate
- identify and weigh the conflicting values represented by different points of view
- reflect upon personal values and priorities surrounding an issue
- develop and articulate original viewpoints on an issue
- communicate in written and oral presentations
- collaborate with peers

Teachers who use Choices units say the collaboration and interaction that take place are highly motivating for students. Opportunities abound for students to contribute their individual talents to the group presentations in the form of political cartoons, slogans, posters, or characterizations. These cooperative learning lessons invite students to take pride in their own contributions and the group product, enhancing students' self-esteem and confidence as learners. Choices units offer students with diverse abilities and learning styles the opportunity to contribute, collaborate, and achieve.

Note to Teachers

When economists talk about U.S. trade policy, beliefs and values that are fundamental to our civic culture often get lost in conflicting interpretations of economic data and pedantic debates over competing theoretical models. *U.S. Trade Policy: Competing in a Global Economy* seeks to cut through the haze of statistics and formulas in order to place beliefs and values at the center of the national discussion on trade policy.

The emergence of U.S. trade policy as a vital public issue has made the unit particularly relevant. The North American Free Trade Agreement (NAFTA), the World Trade Organization (WTO), the growing economic power of the developing world, most-favored-nation status for China, U.S.-Japanese trade relations, and other key trade issues lately have occupied a prominent position on the national agenda. *U.S. Trade Policy: Competing in a Global Economy* provides students with the tools to express their views on these important topics.

At the core of the unit is a framework of three distinct options for U.S. trade policy. By exploring a wide-ranging spectrum of alternatives, students gain a deeper understanding of the values underlying specific policy recommendations. The background reading is intended to introduce students to the terms and concepts essential to a basic understanding of international trade. Part I discusses the expansion of international trade and the globalization of the economy in the decades after World War II. Part II allows students to reflect on the impact of shifting trade patterns on the lives of four Americans. Part III reviews the key items on today's U.S. trade policy agenda.

Suggested Five-Day Lesson Plan: The Teacher's Resource Book accompanying *U.S. Trade Policy: Competing in a Global Economy* contains a day-by-day lesson plan and student activities. The unit opens with a discussion of trade's impact on the local economy. Day Two of the lesson plan calls on students to consider the impact of economic globalization through the eyes of four fictional characters. The third and fourth days of the unit feature a simulation in which students assume the role of advocates for the three options. The lesson plan concludes with students developing their own options and taking part in a classroom survey. You may also find the "Alternative Three-Day Lesson Plan" useful.

The lesson plan offered in *U.S. Trade Policy: Competing in a Global Economy* is a guide. Many teachers choose to devote additional time to certain activities. We hope that these suggestions help you in tailoring the unit to fit the needs of your classroom.

Integrating This Unit into Your Curriculum

Units produced by the Choices for the 21st Century Education Project are designed to be integrated into a variety of social studies courses. Below are a few ideas about where *U.S. Trade Policy: Competing in a Global Economy* might fit into your curriculum.

Global Economy: For most of our country's history, international trade was not a critical factor in the economic development of the United States. In 1913, 8 percent of the U.S. gross national product was derived from trade, as compared to 26 percent for Britain. In the last few decades, however, our country's reliance on international trade has grown dramatically. The expansion of trade has not only changed the U.S. role in the world, but has also injected new economic concepts into the classroom. Today's transnational corporations have blurred the national identities of products and companies. NAFTA, the EU, and the WTO have eroded notions of national sovereignty. For the teacher of economics, exploring the changing priorities of U.S. trade policy helps students gain an understanding of topics related to economic globalization.

Pacific Rim: The economic growth of East Asia has been one of the most important developments in international relations in the second half of the 20th century. In recent years, countries in Latin America have also shown signs that they may be poised to join the ranks of rapidly industrializing nations. For Americans, the economic expansion of the Pacific Rim has forced us to alter our perspective on world affairs. About half of our country's exports are now sold in East Asia and Latin America, as compared to less than 20 percent in Western Europe. Moreover, the economic tilt toward the Pacific Rim is expected to become more pronounced in the 21st century. For students, a study of U.S. trade policy offers both an insight into the growing importance of the Pacific Rim and a springboard for considering the significance of the region in U.S. foreign policy.

Rethinking National Security: Since the end of the Cold War, pressure has built to redefine the concept of U.S. national security. Many critics of the Cold War definition have argued that the notion of national security must be broadened to incorporate economic interests. They note that most of our country's leading trading partners in East Asia and Western Europe have long pursued well-focused industrial and trade policies. The issue has particular relevance today, as Americans reconsider the function of government in our society. Should national security continue to be dominated by military concerns, or should economic matters play a bigger role? Would expanded government involvement in the economy improve our country's economic competitiveness, or harm America's entrepreneurial spirit?

North-South Relations: The next few decades will witness a global shift in the economic balance of power, as the economic output of the developing world surpasses that of the developed world. The trend reverses 200 years of Western domination of the global economy. It also comes at a time when many developing countries are experiencing rapid population growth and intense pressure on natural resources. For students of international relations, the coming decades will demand heightened attention to North-South issues. Will emerging economic powers, such as China, India, and Brazil, build up their military strength and seek to flex their muscles in the international arena? Will international trade serve as a force for global cooperation or will economic disputes contribute to a deepening of North-South tensions?

The U.S. Economy in Transition

Objectives:

Students will:

- Analyze the impact of economic globalization on their local community.
- Assess the significance of international trade for local businesses.
- Relate global economic trends to the economic prospects of their families.

Required Reading:

Before beginning the unit, students should have read Part I of the background reading and completed "Study Guide — Part I."

In the Classroom:

1. Personalizing Trade Issues — Call on students to share their answers to the last question on "Study Guide — Part I" (How has your family been affected by the globalization of the economy?). Ask students to explain the basis for their responses. Are they optimistic or pessimistic about the economic prospects of their families?

2. Gauging the Local Impact — Ask students to assess the impact of international trade on their community. How has the community been affected by NAFTA and the WTO? Are local business leaders optimistic about their economic prospects? Do workers feel confident about the security of their jobs?

3. Making Local Connections — Ask students to identify sectors of the local economy that are most affected by trade and the globalization of the economy. To which parts of the world is the local economy most closely tied? How will the growing economic strength of the developing world influence the local economy? Which trade policy issues are especially important to the community? How do the community's trade interests differ from those of other parts of the country? Call on students to explain how their career plans may be shaped by trade and the globalization of the economy.

Extra Challenge:

Ask students to report on the economic profile of their community in the 1960s. Which industries were most prominent at the time? Which companies depended most heavily on exports? What was the prevailing view about the community's economic future? Suggest that students contact the local chamber of commerce and use newspaper archives to pursue their research. In the final part of their reports, students should consider how the forces of economic globalization have changed the local economy over the past three decades. Which industries have suffered because of trade? Which have prospered?

Homework:

Students should read Part II of the background reading and complete "Study Guide — Part II."

Name:

Study Guide — Part I

The Global Economic System — Made in the U.S.A.

1. Why have trade issues gained increasing importance for the American public?

2. Why did U.S. leaders change our country's trade policy after World War II?

3. How did GATT contribute to a sharp increase in international trade after World War II?

4. How did the goals of U.S. foreign policy help promote economic recovery in Western Europe and East Asia after World War II?

5. How have the forces of economic globalization produced both winners and losers in the United States?

6. How has your family been affected by the globalization of the economy?

Evaluating the Impact of Economic Change

Objectives:

Students will:

- Evaluate changes in the economy through the perspectives of the four characters featured in the background reading.
- Identify sources of opportunity and anxiety associated with economic globalization.
- Assess the impact of economic change on American attitudes toward the economy.

Required Reading:

Students should have read Part II of the background reading and completed "Study Guide — Part II."

Handouts:

- "America's Economic Future" (page 7).

In the Classroom:

1. Organizing Group Work — Divide the class into groups of four students. Assign each group a profile from Part II of the background reading and distribute "America's Economic Future." (In larger classes, two or three groups should be assigned to each profile.) Emphasize that students should answer the questions on the worksheet from the perspectives of their assigned characters.

2. Contrasting Perspectives — After the groups have completed the worksheet, select group spokespersons to share their responses with the entire class. Highlight the contrasts in the outlooks of the four characters. What economic changes account for the greatest anxiety among the four characters? What opportunities have been created by economic globalization?

3. Analyzing Economic Change — Ask students to compare the concerns of the characters presented in the background reading with the economic outlook of the local community and the country as whole. How do students explain the widespread sense of economic anxiety among Americans? Which occupational groups have been most vulnerable to the forces of economic globalization? Conversely, who has most benefited from the expansion of international trade? How should students prepare themselves to meet the challenges of economic change?

Homework:

Students should read Part III of the background reading and complete "Study Guide — Part III."

Name:

Study Guide — Part II
How U.S. Trade Policy Affects Us

1. Why does Judy view free trade as a threat?

2. Why does Vicky believe that she would benefit from more open trade?

3. Why does free trade represent both an opportunity and a concern for Al?

4. How will U.S. trade policy affect Rick's future plans?

America's Economic Future

Instructions: Your group has been assigned one of the profiles in Part II of the background reading. As you learned from your reading, each of the four characters has a distinct perspective on the economic outlook of our country. In this exercise, you and your fellow group members are expected to answer the questions below from the perspective of your assigned character. Imagine that you are being interviewed for a newspaper article about our country's economic future. Later in the period, you will be called upon to share your responses with the entire class.

Your assigned character: _____

1. How have the growth in international trade and the globalization of the economy affected the life and the future plans of your assigned character?

2. According to the perspective of your assigned character, is the American economy heading in the right direction? Explain your answer.

3. What does your assigned character think the future of the American economy holds for him or her?

4. If your assigned character could deliver a brief message to our country's leaders about his or her economic concerns, what would it be?

Role Playing the Three Options: Organization and Preparation

Objectives:

Students will:

- Analyze the issues that frame the debate on U.S. trade policy.
- Identify the core underlying values of the options.
- Integrate the arguments and beliefs of the options and the background reading into a persuasive, coherent presentation.
- Work cooperatively within groups to organize effective presentations.

Required Reading:

Students should have read Part III of the background reading and completed "Study Guide — Part III."

Handouts:

- "Presenting Your Option" (page 10) for option groups.
- "Expressing Key Values" (page 11) for option groups.
- "Joint Committee of Congress on Economics" (page 12) for committee members.
- "Making Your Voice Heard" (page 13) for citizen lobbyists.

In the Classroom:

1. Setting the Stage — In order to save time in the classroom, form student groups before beginning Day Three. During the class period of Day Three, students will be preparing for the Day Four simulation. Remind them to incorporate the background reading into their presentations and questions.

2a. Option Groups — Form three groups of four students. Assign an option to each group. Distribute "Presenting Your Option" to the option groups. Explain that the option groups should follow the instructions in "Presenting Your Option." Note that the groups should begin by assigning each member a role.

2b. Committee Members — Appoint five to ten students to serve as members of the Joint Committee of Congress on Economics. Distribute "Joint Committee of Congress on Economics" to each committee member. While the option groups are preparing their presentations, members of the committee should develop cross-examination questions for Day Four. (See "Joint Committee of Congress on Economics.") Remind committee members that they are expected to turn in their questions at the end of the simulation.

2c. Citizen Lobbyists — Assign the remaining students the roles of the four characters profiled in Part II of the background reading. Distribute "Making Your Voice Heard." In the second half of Day Three, citizen lobbyists will present their assessments of the options to members of the Congressional committee. Remind the citizen lobbyists that they are expected to turn in their essays at the end of the simulation on Day Four (see "Making Your Voice Heard").

Suggestions:

In smaller classes, other teachers or administrators may be invited to serve as members of the committee.

Extra Challenge:

Ask the option groups to design a poster or a political cartoon illustrating the best case for their options. Also, call on committee members to weigh the options as representatives of specific states or Congressional districts.

Homework:

Students should complete preparations for the simulation.

Study Guide — Part III
Rethinking U.S. Trade Policy

1. Why was the creation of the NAFTA trade bloc viewed as a move away from the principles of the WTO for U.S. trade policy?

2. How has NAFTA changed our country's relationship with Mexico?

3. How is the economic growth of the Pacific Rim related to U.S. involvement in APEC?

4. What is the basis for the argument that the WTO threatens U.S. sovereignty?

5. What is the connection between the human rights record of the Chinese government and U.S. trade policy toward China?

6. Summarize the potential advantages and disadvantages of a bigger role for the government in our country's economy.

Presenting Your Option

Preparing Your Presentation

Your Assignment: Your group has been called upon to appear before the Joint Committee of Congress on Economics. Your assignment is to persuade the committee members that your option should be the basis for U.S. trade policy. You will be judged on how well you present your option.

Organizing Your Group: Each member of your group will take a specific role. Below is a brief explanation of the responsibilities for each role.

1. *Spokesperson:* Your job is to explain the option of your group to the Joint Committee of Congress on Economics in a three-to-five minute presentation. In preparing your presentation, you will receive help from the other members of your group. You should include arguments from their areas of expertise. Keep in mind, though, that you are expected to take the lead in organizing your group. Read your option and review the background reading to build a strong case for your option. The "Expressing Key Values" worksheet will help you organize your thoughts.

2. *Economist:* Your job is to advise the spokesperson of your group on how your option would improve economic conditions in the United States. As an economist, you have an insight into the overall direction of the U.S. economy. Carefully read your option and then review the background reading from the perspective of your role. Make sure that your area of expertise is reflected in the presentation of your group spokesperson. The "Expressing Key Values" worksheet will help you organize your thoughts.

3. *Trade Specialist:* Your job is to advise the spokesperson of your group on why your option's position on current trade issues is best for the country. As a trade specialist, you have an insight into the advantages and disadvantages of U.S. trade agreements. Carefully read your option and then review the background reading from the perspective of your role. Make sure that your area of expertise is reflected in the presentation of your group spokesperson. The "Expressing Key Values" worksheet will help you organize your thoughts.

4. *Foreign Policy Analyst:* Your job is to advise the spokesperson of your group on how your option would serve our international interests. As a foreign policy analyst, you have an insight into the relationship between U.S. trade policy and foreign policy goals. Carefully read your option and then review the background reading from the perspective of your role. Make sure that your area of expertise is reflected in the presentation of your group spokesperson. The "Expressing Key Values" worksheet will help you organize your thoughts.

Making Your Case

After your preparations are completed, your spokesperson will deliver a three-to-five minute presentation to the Joint Committee of Congress on Economics. The "Expressing Key Values" worksheet and other notes may be used, but the spokesperson should speak clearly and convincingly. During the presentations, you should try to identify the weak points of the competing options. After all of the groups have presented their options, members of the committee and the citizen lobbyists will ask you cross-examination questions. Any member of your group may respond during the cross-examination period.

Expressing Key Values

The notion of values lies at the core of this unit. Each of the three options in this unit revolves around a distinct set of values. The opening two paragraphs of your option are devoted to making a convincing case for the values that are represented. The term "values," however, is not easy to define. Most often, we think of values in connection with our personal lives. Our attitudes toward our families, friends, and communities are a reflection of our personal values.

Values play a critical role in our civic life as well. In the United States, our country's political system and foreign policy have been shaped by a wide range of values. The high value many Americans place on freedom, democracy, and individual liberty rings loudly throughout U.S. history. For most of our country's existence, the impulse to spread American values beyond our borders was outweighed by the desire to remain independent of foreign entanglements. Since World War II, however, the United States has played a larger role in world affairs than any other nation. At times, American leaders have emphasized the values of human rights and cooperation. On other occasions, the values of stability and security have been stressed. Many of these values have entered into the debate on trade policy.

Some values fit together well. Others are in conflict. Americans are constantly being forced to choose among competing values in our ongoing discussion of public policy. Your job is to identify and explain the most important values underlying your option. These values should be clearly expressed by every member of your group. This worksheet will help you organize your thoughts.

1. What are the two most important values underlying your option?

   a.

   b.

2. According to the values of your option, what should be the role of the United States in the world?

3. Why should the values of your option serve as the basis for our country's trade policy?

Joint Committee of Congress on Economics
Hearing on U.S. Trade Policy

Your Role

You serve on a joint committee of the U.S. House of Representatives and the U.S. Senate that considers issues relating to the U.S. economy. As you know, the expansion of international trade and the globalization of the economy have made trade issues increasingly important for American voters. More than ever, Americans are likely to be affected by U.S. trade policy. These hearings will introduce you to three distinct approaches to this question.

Your Assignment

While the three option groups are organizing their presentations, you will meet with citizen lobbyists. The lobbyists will express their personal opinions on the options. After you have heard their views, you should prepare two questions regarding each of the options. Your teacher will collect these questions — six in all — at the end of Day Four.

As you develop your questions, take into account what you have heard from the lobbyists. At the same time, concentrate on posing questions that are challenging and critical. For example, a good question for Option 1 would be:

> *If the United States adopts Option 1, how would American workers in low-wage industries be affected?*

On Day Four, the three option groups will present their positions. After their presentations are completed, your teacher will call on you and your fellow committee members to ask questions. The "Evaluation Form" you receive is designed for you to record your impressions of the option groups. Part I should be filled out in class after the option groups make their presentations. Part II should be completed as homework. After this activity is concluded, you may be called upon to explain your evaluation of the option groups.

Making Your Voice Heard
Citizen Lobbyist

Your Role

You are expected to represent the views of one of the characters profiled in Part II of the background reading. Your teacher will assign you to play the role of either Judy, Vicky, Al, or Rick. Like other Americans, you have a vital interest in U.S. trade policy. The importance of trade issues has brought you to Washington, D.C. to present your opinions on the options to members of the Joint Committee of Congress on Economics.

Your Assignment

While the three option groups are organizing their presentations on Day Three, you will present your views to the members of the Congressional committee. To prepare yourself, read the first two paragraphs of each of the options, then identify the most important hopes and concerns of your character. What would he or she have to say about the options?

After you have finished your preparations, summarize your opinions for members of the committee. They will take your views into account as they get ready to question the presentations of the option groups. As homework, present your character's assessment of the options in a one-paragraph essay. Your teacher will collect your essay at the end of Day Four.

On Day Four, the three option groups will make brief presentations. If time permits, your teacher will allow you to direct questions toward the option groups. Keep in mind that you are expected to represent the views of your assigned character.

Role Playing the Three Options: Debate and Discussion

Objectives:

Students will:

- Articulate the leading values that frame the debate on U.S. trade policy.
- Explore, debate, and evaluate multiple perspectives on U.S. trade policy.
- Sharpen rhetorical skills through debate and discussion.
- Cooperate with classmates in staging a persuasive presentation.

Handouts:

- "Evaluation Form" (page 15) for committee members.

In the Classroom:

1. Setting the Stage — Organize the room so that the three option groups face a row of desks reserved for the Joint Committee of Congress on Economics. The citizen lobbyists should be seated behind the committee members. Distribute "Evaluation Form" to the committee members. Instruct members of the Congressional committee to fill out the first part of their "Evaluation Form" during the course of the period. The second part of the worksheet should be completed as homework.

2. Managing the Simulation — Explain that the simulation will begin with three-to-five minute presentations by the spokespersons for the option groups. Encourage the spokespersons to speak clearly and convincingly.

3. Guiding Discussion — Following the presentations, invite members of the Joint Committee of Congress on Economics to ask cross-examination questions. Make sure that each committee member has an opportunity to ask at least one question. The questions should be equally distributed among all three option groups. If time permits, allow citizen lobbyists to ask questions as well. During the cross-examination period, allow any option group member to respond. (As an alternative approach, permit questions after each option is presented.)

Homework:

Students should read each of the three options, then moving beyond these options they should fill out "Focusing Your Thoughts" and complete "Your Option Four."

Name:

Evaluation Form

Joint Committee of Congress on Economics

Part I

What was the most persuasive argument presented in favor of this option?

Option 1

Option 2

Option 3

What was the most persuasive argument presented against this option?

Option 1

Option 2

Option 3

Part II

Which group presented its option most effectively? Explain your answer.

Beyond the Options

Objectives:

Students will:

- Articulate coherent recommendations for U.S. trade policy based on personally held values and historical understanding.
- Compare and contrast values and assumptions with classmates.
- Identify factors that distinguish classroom attitudes toward U.S. trade policy.

Required Reading:

Students should have read the three options and completed "Focusing Your Thoughts" and "Your Option Four."

Handouts:

- "Classroom Survey" (page 19).

In the Classroom:

1. Analyzing Beliefs — Call on members of the Congressional committee and the citizen lobbyists to share their evaluations of the option groups. Which arguments were most convincing? Which beliefs were most appealing? To what extent do the options address the concerns of Americans?

2. Student Options — Review the beliefs in "Focusing Your Thoughts," noting the relationship between beliefs and policy options. Call on students to explain how their beliefs guided their responses in "Your Option Four."

3. Surveying Classroom Views — Distribute "Classroom Survey" and ask students to complete the form individually. After students finish the assignment, call on them to indicate their responses with a show of hands. Tally student responses on the "Teacher's Recording Form" (page 20). Call on students to analyze the views of the class. Do the results reflect the general outlook of the local community? How did student attitudes change as a result of the unit? How would the responses of the class likely differ from a survey of Americans nationwide? What factors (e.g., local economic conditions, age, region, class, etc.) account for the differences?

Extra Challenge:

As homework, instruct students to write a letter to a member of Congress, the president, or the editor of a local newspaper expressing their views on U.S. trade policy. The first part of the letter should analyze the results of the classroom survey and outline the leading concerns of the class. In the second part, students should summarize their responses to "Your Option Four" and explain their positions on current trade issues.

Encourage students to further explore the local dimension of trade issues. For example, which businesses have the most at stake with respect to NAFTA and the WTO? How would the expansion of NAFTA to other countries in the Western Hemisphere or the creation of a Pacific Rim trading bloc affect the local community? Which other trade issues are likely to strike a deep chord locally? Suggest that students contact local organizations that seek to make their voices heard in the debate on trade issues. Business associations, labor unions, and environmental groups are especially active in the political battles over trade. Local political leaders could also be asked to express their opinions on the subject.

Focusing Your Thoughts

Instructions: You have had an opportunity to consider three options on U.S. trade policy. Now it is your turn to look at each of the options from your own perspective. Try each one on for size. Think about how the options address your concerns and hopes. You will find that each has its own risks and trade-offs, advantages and disadvantages. After you complete this worksheet, you will be asked to develop your own option on this issue.

Ranking the Options

Which of the options below do you prefer? Keep in mind that the beliefs you support most strongly should guide your choice. Rank the options, with "1" being the best option for the United States to follow.

____ **Option 1: Promote Free Trade**

____ **Option 2: Protect American Workers**

____ **Option 3: Chart Our Economic Course**

Beliefs

Considering the statements below will help you answer the first three questions of "Your Option Four." Rate each of them according to your personal beliefs:

1 = Strongly Support
2 = Support
3 = Oppose
4 = Strongly Oppose
5 = Undecided

____ The economic prosperity of our trading partners contributes to the prosperity of Americans as well.

____ In the global economy, one country's gain is usually another country's loss.

____ The government has an important role to play in guiding our economic development.

____ Government involvement in the economy interferes with the free market and undermines our economic strength in the long run.

____ The success or failure of trade policy can be judged by how it affects American workers.

____ The main economic goal of U.S. policy should be promoting the overall growth of the U.S. economy.

____ Our country's leadership role in upholding the international economic system has contributed to peace and prosperity at home and abroad.

____ Our trading partners have taken advantage of U.S. policies to enrich themselves at our expense.

Creating Your Own Option

Your assignment is to create an option that reflects your own beliefs and opinions. You may borrow heavily from one option, or you may combine ideas from two or three options. Or you may take a new approach altogether. There are, of course, no perfect solutions. And there is no right or wrong answer. Rather, you should strive to craft an option that is logical and persuasive. Be careful of contradictions. For example, we cannot raise tariffs to protect American auto workers and at the same time be seen as an international champion of free trade.

Name:

Your Option Four

Instructions: In this exercise, you will offer your own recommendations for U.S. trade policy. Your responses to "Focusing Your Thoughts" should help you identify the values of your proposal.

1. What should be the most important principle guiding U.S. trade policy?

2. What should be the role of the government in the U.S. economy?

3. What image of the United States does your option project to the rest of the world?

4. What current trade issue is most important for your option?

5. What are the two strongest arguments opposing your option?

   a.

   b.

6. What are the two strongest arguments supporting your option?

   a.

   b.

Name: _____

Classroom Survey

By answering the questions below, you will have an opportunity to compare your views with those of your classmates.

Part I: *Respond Y (yes) or N (no) to the following questions.*

____ The United States should stand up for the principle of free trade.

____ The United States should punish countries with unfair trade practices by closing American markets to their exports.

____ The government should not interfere with the basic forces of the free market system.

____ The government should play an important role in guiding our economic development.

____ The interests of American workers should be our top priority in charting U.S. trade policy.

____ The overall growth of the U.S. economy should be our leading goal in determining U.S. trade policy.

____ U.S. trade policy should serve the foreign policy goals of promoting peace and prosperity in the world.

____ U.S. trade policy should focus only on promoting the economic interests of the United States.

Part II: Below are three courses of action that the United States could pursue. Rank each course of action 1-3, with "1" representing the strongest agreement.

____ 1. The United States should give top priority to upholding the principles of free trade in order to promote U.S. economic growth, even if some Americans will lose their jobs because of changing trade patterns.

____ 2. The United States should give top priority to developing trade policies that protect the interests of American workers, even if the pace of U.S. economic growth is slower.

____ 3. The United States should pursue trade policies that are part of a long-term economic strategy for the country, even if the government is given a leading role in picking winners and losers in the economy.

Teacher's Recording Form

Part I: *Record student responses to the following questions.*

Yes	*No*	
___	___	The United States should stand up for the principle of free trade.
___	___	The United States should punish countries with unfair trade practices by closing American markets to their exports.
___	___	The government should not interfere with the basic forces of the free market system.
___	___	The government should play an important role in guiding our economic development.
___	___	The interests of American workers should be our top priority in charting U.S. trade policy.
___	___	The overall growth of the U.S. economy should be our leading goal in determining U.S. trade policy.
___	___	U.S. trade policy should serve the foreign policy goals of promoting peace and prosperity in the world.
___	___	U.S. trade policy should focus only on promoting the economic interests of the United States.

Part II: *Tally student preferences regarding the following policy options, with "1st" representing the first choice of students.*

1. The United States should give top priority to upholding the principles of free trade in order to promote U.S. economic growth, even if some Americans will lose their jobs because of changing trade patterns.	1st___ 2nd___ 3rd___
2. The United States should give top priority to developing trade policies that protect the interests of American workers, even if the pace of U.S. economic growth is slower.	1st___ 2nd___ 3rd___
3. The United States should pursue trade policies that are part of a long-term economic strategy for the country, even if the government is given a leading role in picking winners and losers in the economy.	1st___ 2nd___ 3rd___

Alternative Three-Day Lesson Plan

Day 1: See Day One of the Suggested Five-Day Lesson Plan. (Students should have read Part I of the background reading and completed the "Study Guide — Part I" before beginning the unit.) Students should read Part II of the background reading and complete "Study Guide — Part II" as homework.

Day 2: Assign each student one of the three options, and allow a few minutes for students to familiarize themselves with the mindsets of the options. Call on students to evaluate the benefits and trade-offs of their assigned options. How do the options differ in their assumptions about the benefits of free trade? How would the government's role in the economy change according to the recommendations of the options? Ask students to consider the options from the perspective of the characters in Part II of the background reading (Judy, Vicky, Al, and Rick). What factors would influence their views of the options? Moving beyond the options, students should imagine that they are participating in a meeting of the Joint Committee of Congress on Economics. What aspects of U.S. trade policy would most concern them?
Homework: Students should complete "Focusing Your Thoughts" and "Your Option Four."

Day 3: See Day Five of the Suggested Five-Day Lesson Plan.

The contents of this unit are being distributed under a grant from the U.S. Department of Education. However, those contents do not necessarily represent the policy of the Department of Education, and you should not assume endorsement by the Federal Government. If an education service provider uses funds under a program subject to section 439 of the General Education Provisions Act (GEPA) (20 U.S.C. 1232h) to adopt this project, the education service provider must comply with part 98 of title 34 of the Code of Federal Regulations (Student Rights in Research, Experimental Programs and Testing) which contains the regulations implementing that section of GEPA.

Making Choices Work in Your Classroom

Like the art of cooking, cooperative group learning is a skill that is rarely perfected on the first attempt, either by teachers or students. Yet with careful preparation, guidance, and practice significant gains can be made quickly. No single recipe guarantees success with cooperative learning or the Choices approach in every classroom. That would be impossible, since each classroom differs in its organization and size, and its unique collection of personalities and needs. However, this section of the Teacher's Resource Book offers a variety of ingredients for teachers to use as they adapt Choices curricula to their classrooms. The suggested ingredients that follow have been drawn from educational research on student-centered instruction and, more important, from the experiences of teachers who have used Choices curricula successfully in their classrooms over the past six years. Educators who have questions about using Choices curricula in their classrooms are encouraged to contact the Choices Education Project in writing, or by calling (401)863-3155. The Choices staff includes experienced classroom teachers who will be pleased to speak with you.

Designing Cooperative Learning Groups

Group Size: The key to successful cooperative group work is having a group assignment that is complex enough to require the participation of all group members. Planning the size and composition of working groups in advance is crucial to the successful use of Choices curricula. Research indicates that the ideal size for a cooperative learning group is four or five students. This is certainly the ideal size for group assignments in Choices units. When using Choices units in larger classes, the size of option (or, in the case of this unit, Future) groups may be expanded to six or seven students. However, it is important to keep in mind that whenever the number of students in a group is increased, the number of roles and expected outcomes must also be expanded.

Group Composition: A strength of cooperative learning is that it creates opportunities for students to work together in new combinations on challenging tasks. Cooperative learning not only requires the academic skills of reading, writing, and critical thinking, but the interpersonal skills of communication, negotiation, and problem-solving. In most cases, this style of instruction and learning is most effective when students are assigned to groups by the teacher rather than being allowed to work with their friends. While random group selection can be effective, in most classes successful group composition requires that the teacher consider the personalities, strengths, and needs of the students.

Groups comprised of students with diverse strengths, talents, and needs are ideal. For example, artistic students might be assigned to different groups to share their talents and perspectives, while less verbal students could be placed in groups with more outgoing students to help draw them into the lesson. Whenever possible, teachers should try to prevent one student from dominating a group. Explaining the instructions, roles, and ground rules for cooperative learning (see below) helps prevent this. Teachers may choose to group aggressive students with each other, leaving room in other groups for less assertive students to emerge as leaders. Finally, even though the negotiation of roles among the students in a group can be a valuable part of the cooperative learning experience, teachers might choose to assign certain roles, such as group spokesperson, in order to encourage leadership from more reticent students and to keep more aggressive students from dominating.

Students may initially complain about being assigned to groups that do not include their closest friends. We have found that, at the conclusion of the assignment, they will usually express satisfaction with their assigned partners, recognize that they got more accomplished, and sometimes even acknowledge the start of new friendships. The additional time involved in planning group size and composition will pay off when students are actively engaged, debating, and thinking critically.

Preparing Students for Cooperative Learning

Provide Clear Written Instructions: As with any assignment, students benefit from instructions and guidelines that clearly outline expectations and how they will be accomplished. These should be given to students in writing and reviewed with the class. Afterwards, as questions arise within groups, students should refer to the written instructions and attempt to answer each other's questions before asking for the teacher's assistance.

Establish Ground Rules: Especially when cooperative learning is a new experience, students benefit from the establishment of ground rules that are explained before groups are formed. Ground rules must be kept simple, and should be designed to keep students involved and on task. Posting these rules in a prominent place in the classroom can be very effective. An example of simple but effective ground rules for the cooperative group assignments could be:

Everybody has a role (or a job)
Everybody participates
Nobody dominates
Nobody interrupts

These rules can be enforced by appointing one student to serve as the group manager. The teacher can make it clear that one of the group manager's responsibilities is to enforce the ground rules as the group explores its assigned option and prepares its presentation. The group manager might also be required to make sure that members of the group stay on task and attempt to solve problems before asking for the teacher's assistance. Ground rules that are clear and used consistently can, over time, become an integral component of the classroom, facilitating learning and keeping students on task.

Managing the Choices Simulation

Recognize Time Limitations: At the heart of the Choices approach is the role-play simulation in which students advocate different options, question each other, and debate. Just as thoughtful preparation is necessary to set the stage for cooperative group learning, careful planning for the presentations and debate can increase the effectiveness of the simulation. Time is the essential ingredient to keep in mind. A minimum of 45 to 50 minutes is necessary for the presentations and debate. Hence, if only one class period is available, student groups must be ready as soon as class begins. Teachers who have been able to schedule a double period or extend the length of class to one hour report that the extra time is beneficial. When necessary, the role-play simulation can be run over two days, but this disrupts the momentum of the debate. The best strategy for managing the role-play is to establish and enforce strict time limits, such as five minutes for each option presentation, ten minutes for questions and challenges, and the final five minutes of class for wrapping up the debate. It is crucial to make students aware of strict time limits as they prepare their presentations.

Highlight the Importance of Values: During the debate and debriefing, it is important to highlight the role of values in the options. Students should be instructed to identify the core values and priorities underlying the different options.

Moving Beyond the Options

As a culminating activity of a Choices unit, students are expected to articulate their own views of the issue under consideration. An effective way to move beyond the options debate to creating individual options is to have students consider which values in the options framework they hold most dear. Typically, students will hold several of these values simultaneously and will need to prioritize them to reach a considered judgment about the issue at hand. These values should be reflected in their own options and should shape the goals and policies they advocate.

Adjusting for Large and Small Classes

Choices units are designed for an average class of twenty-five students. In larger classes, additional roles, such as those of newspaper reporter or member of a special interest group, can be assigned to increase student participation in the simulation. With larger option groups, additional tasks might be to create a poster, political cartoon, or public service announcement that represents the viewpoint of an option. In smaller classes, the teacher can serve as the moderator of the debate, and administrators, parents, or faculty can be invited to play the roles of congressional leaders. Another alternative is to combine two small classes.

Applying Choices to Ability-Grouped Classes

Choices curricula are developed with the majority of high school students in mind. Choices units are not designed solely for students in honors or advanced placement programs. Nor are they designed specifically for students in remedial classes. However, the units are designed to be flexible enough for high school teachers to adapt for *any* classroom, and they have been used successfully in all kinds of classes. The Choices staff places confidence in the ability of teachers to decide which units are best suited for the courses and students they teach. The following suggestions may assist teachers of higher- and lower-ability classes in adapting Choices curricula to meet the needs of their students.

Lower-Ability Classes: It would be a mistake to believe that the Choices approach is too difficult for students in lower-ability classes. Teachers report that, with certain adaptations, Choices units can motivate higher levels of student participation, thinking, and confidence in lower-ability classes. Feedback from classroom teachers indicates that the following strategies lead to success with Choices in these classes:

- Maintain high expectations for student learning and thinking.
- Classes of all abilities do a better job with Choices the second or third time the approach is used. Skills in collaboration, communication, and critical thinking improve with practice.
- Some units are easier than others because the necessary background is particularly accessible. Use one of these first to give the students some experience with the approach.
- To make background readings more manageable, some teachers have students read aloud in class, stopping to discuss or clarify key points. Other teachers substitute shorter readings from the textbook or another source as background reading.
- Key concepts from the background can be explained in a mini-lecture format.
- Students can review and keep track of the important terms in a unit by creating their own glossary for reference throughout the unit.
- An extra day for review of the background, for group preparation, or for the development of individual options can be very worthwhile.

Higher-Ability Classes: Choices units have much to offer students in higher-ability and advanced placement classes. Students are challenged to understand the internal logic of different arguments and to extrapolate from these while playing the role of advocate. Two-week Choices units are especially rich in historical background, and they highlight the complex relationships among nations through many eras. Choices units on historical topics typically include a wealth of primary source documents for students to read and analyze. These documents can help to prepare students in advanced placement classes for the "Document Based Questions" included on advanced placement examinations. Extra challenge assignments are included in many lesson plans, and every Choices unit includes suggestions for additional reading and research.

Assessing Student Achievement

Grading Group Assignments: Research suggests that it is counterproductive to give students individual grades on cooperative group assignments. A significant part of the assignment given to the group is to cooperate in achieving a common goal, as opposed to looking out for individual interests. Telling students in advance that the group will receive one grade often motivates group members to hold each other accountable. This can foster group cohesion and lead to better group results. It may be useful to note that in addition to the cooperative group assignments, students complete individual assignments as well in every Choices unit.

Requiring Self-Evaluation: Having students complete self-evaluations is an extremely effective way to make them think about their own learning. Self-evaluations can take many forms and are useful in a variety of circumstances. They are particularly helpful in getting students to think constructively about group collaboration. In developing a self-evaluation tool for students, teachers need to pose clear and direct questions to students. A sample Group Project Self-Evaluation is included on page 26. Each student should complete his/her own evaluation as part of the unit. Two key benefits of student self-evaluation are that it involves students in the assessment process, and that it provides teachers with valuable insights into the contributions of individual students and the dynamics of different groups. These insights can help teachers to organize groups for future cooperative assignments.

Evaluating Student Options: The most important outcomes of a Choices unit are the original options developed and articulated by each student. These will differ significantly from one another, as students identify different values and priorities that shape their viewpoints. These options cannot be graded as right or wrong, but should be evaluated on clarity of expression, logic, and thoroughness. Did the student provide reasons for his/her viewpoint along with supporting evidence? Were the values clear and consistent throughout the option? Did the student identify the risks involved? Did the student present his/her option in a convincing manner?

Testing: In a formal evaluation of the Choices approach, it was demonstrated that students using Choices learned the factual information presented as well as or better than students who were taught in a more traditional lecture-discussion format. However, the larger benefits of the Choices approach were evident when students using Choices demonstrated significantly higher ability to think critically, analyze multiple perspectives, and articulate original viewpoints, compared to students who did not use this approach. Teachers should hold students accountable for learning historical information, concepts, and current events presented in Choices units. However, a simple multiple-choice examination will not allow students to demonstrate the critical thinking and communication skills developed through the Choices unit. If teachers choose to test students, they may wish to explore new models of test design that require students to do more than recognize correct answers. Tests should not replace the development of student options.

For Further Reading: Cohen, Elizabeth G. *Designing Groupwork: Strategies for the Heterogeneous Classroom* (New York: Teachers College Press, 1986).

Group Project Self-Evaluation

1. What did you contribute to this project?

2. List the names of your partners and briefly comment on each person's contributions.

3. What things went well within your group?

4. What problems did you encounter? How did you attempt to resolve these problems?

5. If you had this assignment to do over again, with the same partners, what would you do differently?

6. Overall, what grade do you think your group deserves on this assignment? Explain your response.

Publications List

The Choices for the 21st Century Education Project develops curricula for high schools and colleges on current foreign policy issues and offers workshops, institutes, and in-service programs for high school teachers. Course materials place special emphasis on the importance of educating students in their participatory role as citizens. All units incorporate the work of academics and policymakers from a range of perspectives and are classroom tested prior to publication. A new unit is published every three months during the academic year, and all units are updated regularly. For current information on new titles and revisions, call the Choices Education Project at (401) 863-3155 or visit the project on the World Wide Web at *http://www.brown.edu/Research/Choices/*.

Current Choices

- Help, Handout, or Hindrance: U.S. Support for the Developing World (June 1995, 66 pages)
- China on the World Stage: Weighing the U.S. Response (Feb. 1996, 77 pages)
- Keeping the Peace in an Age of Conflict: Debating the U.S. Role (Revised Oct. 1995, 69 pages)
- Russia's Uncertain Transition: Challenges for U.S. Policy (Sept. 1994, 71 pages)
- Global Environmental Problems: Implications for U.S. Policy (Revised March 1996, 60 pages)
- U.S. Immigration Policy in an Unsettled World (Revised Aug. 1995, 63 pages)
- After the Cold War: The U.S. Role in Europe's Transition (Revised Sept. 1994, 120 pages)
- Charting Russia's Future in the Post-Soviet Era (Revised Oct. 1995, 70 pages)
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- Ending the War against Japan: Science, Morality, and the Atomic Bomb (July 1995, 102 pages)
- Crisis, Conscience, and Choices: Weimar Germany and the Rise of Hitler (Nov. 1994, 84 pages)
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Classroom sets of student texts (15 or more of the same unit) are available at $5 per copy.

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